

COMPREHENSIVE TRADE LEGISLATION

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

AND ITS

SUBCOMMITTEE ON TRADE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

H.R. 3

TRADE AND INTERNATIONAL ECONOMIC POLICY REFORM ACT AND
OTHER PROPOSALS

FEBRUARY 5, 10, 18, 20, 26, AND 27, 1987

PART 1

FEBRUARY 5, 10, 18, 20, 1987

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COMPREHENSIVE TRADE LEGISLATION

THURSDAY, FEBRUARY 5, 1986

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The committee met, pursuant to call, at 9:30 a.m., in room 1100, Longworth House Office Building, Hon. Dan Rostenkowski (chairman of the committee) presiding.

[Press releases announcing the hearings follow:]

(1)

FOR IMMEDIATE RELEASE
WEDNESDAY, JANUARY 21, 1987

PRESS RELEASE #3
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3625

**THE HONORABLE DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN,
COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES,
ANNOUNCES HEARINGS ON COMPREHENSIVE TRADE LEGISLATION,
FEBRUARY 5 AND 10, 1987**

The Honorable Dan Rostenkowski (D., Ill.), Chairman of the Committee on Ways and Means, U.S. House of Representatives, today announced full Committee hearings on H.R. 3, the "Trade and International Economic Policy Reform Act," and on other proposals for improving U.S. trade policy and enhancing the Nation's competitiveness in international commerce. The hearings will be held on Thursday, February 5, and Tuesday, February 10, 1987, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 9:30 a.m. each day.

It is anticipated that the Honorable Jim Wright, Speaker of the House of Representatives, and the Honorable Bob Michel, Minority Leader, U.S. House of Representatives, will be the leadoff witnesses on February 5. It is anticipated that the Honorable James A. Baker III, Secretary of the Treasury, and the Honorable Clayton Yeutter, U.S. Trade Representative, will appear on February 10. Also on these two days, the Committee will receive testimony from invited witnesses from the private sector representing major business, labor and consumer interests.

The Committee on Ways and Means expects to give priority consideration to trade legislation, in accordance with the House leadership's intention to bring this matter to the House floor on an expedited schedule. The hearings will provide a general overview of the basic factors influencing the U.S. trade situation which may need to be addressed in legislation, such as foreign unfair trade practices, deficiencies in U.S. trade policymaking, weaknesses in international trade rules, the lack of adequate adjustment policies, instabilities in U.S. monetary policy, and the growth of Third World debt.

Additional hearings on specific issues which may be addressed in comprehensive trade legislation will be conducted by the Subcommittee on Trade. A subsequent press release will announce details of the Subcommittee's hearings.

FOR IMMEDIATE RELEASE
WEDNESDAY, JANUARY 28, 1987

SUBCOMMITTEE ON TRADE #2
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3627

THE HONORABLE SAM M. GIBBONS (D., FLA.),
CHAIRMAN, SUBCOMMITTEE ON TRADE,
COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES,
ANNOUNCES CONTINUATION OF
HEARINGS ON COMPREHENSIVE TRADE LEGISLATION

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee on Trade will continue the hearings on comprehensive trade legislation begun by the full Committee on Ways and Means (press release #3). The Subcommittee hearings will cover proposals contained in Titles I and II of H.R. 3, to enhance the competitiveness of American industry, and for other purposes, introduced by Mr. Gephardt with cosponsors on January 6, 1987. In addition, the Subcommittee will welcome testimony on other proposals to enhance U.S. trade competitiveness and to reform the trade laws. The members of the full Committee on Ways and Means are also invited to participate in the Subcommittee hearings.

The Subcommittee hearings will be held according to the following schedule:

<u>Date</u>	<u>Time</u>	<u>Room</u>
Wed., Feb. 18	9:00 a.m.	1100 Longworth HOB
Fri., Feb. 20	9:30 a.m.	1100 Longworth HOB
Thurs., Feb. 26	9:30 a.m.	1100 Longworth HOB
Fri., Feb. 27	9:30 a.m.	1100 Longworth HOB

The first two days of hearings in the full Committee will provide a general overview of the basic factors influencing the U.S. trade situation which may need to be addressed in legislation. The full Committee hearings will include testimony from Administration officials, Congressional leaders, and other invited witnesses. The hearings in the Subcommittee will focus on specific issue areas, particularly proposals on:

- enhancing the competitiveness and adjustment of American industry and workers;
- trade negotiating authorities and objectives;
- market access and trade deficit reduction authorities;
- amendments to improve laws which address unfair trade practices or provide import relief; and
- measures to improve the efficiency and effectiveness of U.S. Customs Service commercial operations and enforcement.

Witnesses should focus their testimony on specific topics in the list of major issues above as well as provide any other detailed legislative recommendations they believe essential.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD:

Requests to be heard must be made by telephone to Harriett Lawler [telephone (202) 225-3627] by the close of business Friday, February 13, 1987. Requests should indicate the specific issues which the witness wishes to address and the relative priority of each issue if more than one issue is indicated, in order to facilitate scheduling. The request should be followed by a formal written request addressed to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee staff [(202) 225-3943].

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearings. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are requested to briefly summarize their written statements. The full statement will be included in the printed record.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 150 copies of their prepared statements to the Subcommittee on Trade office, room 1136 Longworth House Office Building, at least 24 hours in advance of their scheduled appearances. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENT IN LIEU OF PERSONAL APPEARANCE:

Persons submitting a written statement in lieu of a personal appearance should submit six (6) copies of their statement by the close of business Friday, March 6, 1987, to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing a written statement for the record of the printed hearings wish to have their statement distributed to the press and the interested public at the hearing, they may provide 75 additional copies for this purpose to the Subcommittee office, room 1136 Longworth House Office Building, during the course of the public hearings.

SEE ENCLOSED FORMATTING REQUIREMENTS.

Chairman ROSTENKOWSKI. The committee will come to order.

Good morning, ladies and gentlemen. Today, the Committee on Ways and Means begins an effort to bring America back as a successful trader. These hearings begin a period of intense, detailed deliberations with one fundamental goal: to enact this year a legislative package that will strengthen U.S. competitiveness.

For 5 years, this country has been losing the battle for world markets. The sad facts are well-known: the skyrocketing trade deficit; a dramatic shift from being the world's largest creditor to being the world's largest debtor; a loss of world market share in sector after sector of our economy. What is at stake here is the very future of the American standard of living.

We know this is a complex problem. The causes are many, and the cures will not come easily. There is no quick fix. But the complexity of this issue cannot deter us from acting. I hope we can produce a bipartisan proposal that will receive the enthusiastic endorsement of the President.

I am pleased that the administration plans to participate actively in this process. We look forward to hearing from Secretary Baker and Ambassador Yeutter next week. As chairman of this committee, I will do everything possible to encourage a bipartisan process. This will require a spirit of cooperation and compromise on everyone's part. While careful consideration will be given to all viewpoints, I want the members to understand that this process is on a fast track, and we are going to report legislation.

The rest of the world must realize that America stands united on its trade policies. We can only do this if we work hard to develop a true national consensus.

Before we proceed, I would first like to call on John Duncan, the ranking minority member, for comments.

Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman.

Of course, we are always honored to have our Republican leader, Bob Michel, at any meeting. I think since I have been on the committee, this is the first time that the minority leader has ever been before the committee on any subject, which indicates the importance this trade bill has in this session of the Congress.

I am pleased that you have also made it a high priority, and I know of your interest. I know that on our side as well as with the Democrats, it is a high priority item. We are all concerned with it. We are also concerned with the world in which we live and breathe and which we participate.

I look forward to your testimony, not only here today, but also to working with you in trying to solve something that is good for the country in which we live. Glad to have you here, Mr. Michel.

Chairman ROSTENKOWSKI. I, too, would like to join my colleague, Mr. Duncan, and my other colleagues, in welcoming the minority leader, Mr. Michel, an old-time friend, fellow Illincisan, who has, as I recollect, been long for working out our trade problems.

I certainly recognize that Mr. Michel, who has been my friend for at least 30 years, has often had private discussions with me on what our problems are in the trade imbalance.

I might add, Mr. Minority Leader, before you begin your testimony, that Speaker Wright expected to join you at the witness table

because of his sincere concern about trade. However, he had to leave for California, as you well know, because of the death of one of our colleagues.

So, Bob, I really appreciate your taking time out of your busy schedule to share your views with us. I am sincere about that. We have worked together on issues that put country before politics. I just hope that we can continue our efforts to put together legislation that both you and my members on the Committee on Ways and Means can feel comfortable with presenting to the people of the United States of America.

Welcome.

Are there any further comments?

Mr. Gibbons.

Mr. GIBBONS. I will just wait for Mr. Michel to testify.

Chairman ROSTENKOWSKI. Bob.

**STATEMENT OF HON. ROBERT H. MICHEL, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF ILLINOIS, AND MINORITY
LEADER OF THE HOUSE OF REPRESENTATIVES**

Mr. MICHEL. Mr. Chairman, members of the committee, my thanks and appreciation to you for inviting us to be your leadoff witness. As the chairman has indicated, the Speaker and I, several days ago, had agreed that we would both jointly appear this morning. As the chairman indicates, because of the death of our dear friend, Sala Burton, the Speaker and a large contingent of our Members have gone out to the funeral.

But the hearings go on, and I assume the record will eventually show the Speaker's views.

Chairman ROSTENKOWSKI. The Speaker and I discussed yesterday the possibility of him testifying on Tuesday next in the afternoon, at 2 o'clock.

Mr. MICHEL. Again, I want to express my appreciation, Mr. Chairman. And also, in all this hurly-burly of legislating and the things that have happened within the last several days, and the committee's desire to have advance copies of the testimony, we submitted to the committee a prepared statement that I might want to make a few changes in, after having had the chance last night to consider some of the points more thoroughly, so I would like to ask permission, if I might, Mr. Chairman, to revise and extend some of those statements. There might be a word here or there, or a sentence, that might very well give a wrong impression, and we are talking about very serious matters here.

If granted that permission, permit me to summarize.

Chairman ROSTENKOWSKI. Without objection, Mr. Michel.

Mr. MICHEL. I want to take the opportunity here this morning to reaffirm the high priority that we, on our side of the aisle, place on the trade issue and to reflect, as well, on the critical nature of the international trade to my district, the people I represent.

Your chairman, as he has expressed, well knows the dependence of Illinois on the international market out there. I would like to make three points this morning.

The first is that our mandate from the public is not easily applied. Clearly, the American people want relief from unfair trade

practices which threaten their jobs, or the jobs of their neighbors; however, those same Americans also insist upon healthy competition in the marketplace, and they continue to demonstrate that fact in their acceptance of foreign-made products. Quality is their first criteria in the marketplace.

My second observation is that much of the difficulty we face in solving the problem is in the manner in which we define the solution. The solution used to be free trade. Then it became fair trade. Now it is competitiveness. I am not sure how you define this latest buzz word; however, I do know that competition is not protectionism. You don't compete by carving up the market and distributing the pieces around the table.

Competitiveness is a condition with inherent risk and challenge. We have accepted those pitfalls in the commitment we have made to the free enterprise system and our belief in individual initiative. We must not rewrite the dictionary or the English language by making competitiveness something it is not.

Finally, Mr. Chairman, a word about the role of the Congress and the administration. Since President Reagan took office, there has been a complete about-face in the administration's approach to trade, I believe, and their attitude toward a legislative solution. An administration once lacking in enforcement is now the toughest in section 201 and 301 cases of any administration in history. And I think the record will show that.

This administration once opposed to a legislative initiative is now fully committed and ready to work. I feel the President will sign a good bill.

I hope this condition will be met with a new resolve in Congress, as well, a resolve to reach compromise and avoid partisan confrontation, as the chairman pointed out in his preliminary remarks. Frankly, I think partisan considerations played too much of a role in the last Congress, and I believe that a sound solution was sacrificed in order to achieve a partisan end.

We just cannot serve the public good with such motivation on either side. I assume that my presence here today reflects a spirit of cooperation and a willingness to set partisan interests aside.

As a matter of fact, the Speaker and I, while the chairman was out of town, had one significant meeting in the Speaker's dining room, calling together the chairmen on your side, the seven committees that I envision being involved in this entire package. We had our vice chairmen on our side also present, as many as were in town. It was my hope that yesterday we could have had an initial meeting with the technicians downtown in the departments, who would, I envision, work with our technicians.

I think one thing, for example, is that we are inclined sometimes as legislators to forget the prohibitions or limitations in the GATT agreements. We have got to be always conscious, I think, that we don't get ourselves too far afield here; that we keep ourselves on track.

In the area of exchange rates, I think there is no question but that the earlier disparity in the dollar versus the yen or deutsche mark some time ago, certainly didn't help our competitive situation.

I am reminded, for example, of my largest industry, Caterpillar, and how it competes with Kamatsu of Japan. A year and a half ago, the yen was 262 to the dollar. Today, I think the morning news said 152 or 153—it maybe rose a point yesterday—to the dollar. What a difference with one principal competitor and one country.

I think the Secretary of the Treasury and the administration have done a good job with our trading partners to get the point across that we needed—that there was a need for—better equalization there.

The last thing I would want us to do is get involved legislatively in the exchange rate decisionmaking process. We should not be legislating in that area.

One other matter to consider as we seek a legislative solution is whether we should continue to rely on mega-bills as our vehicles. I think this approach, frankly, is becoming a threat to our legislative process. I hope we will resist the temptation.

I already made mention of the fact that we have seven committees involved. How we pull them together in this limited time frame that the chairman has alluded to—I think the Speaker himself is talking about April 6 as a date for reporting, and to the Rules Committee after the Easter recess, and on the floor the last week in April. Now, that is going to be a mighty, mighty big order, in my judgment, for all those committees to get together to do that kind of thing.

But I would consider Ways and Means to be the flagship committee in the trade arena; and we Republicans are ready to make a contribution to the process, help produce legislation the President will sign. That has got to be our goal. I hope you will accept our help and our willingness to work.

Maybe if I could close on a personal note, as I said in the opening of my remarks, I represent a district in which people know firsthand the vital importance of being competitive in world trade. In our 18th District of Illinois, "competitiveness" isn't a fancy buzz word; it is what puts food on the table, helps educate the young, enables families to plan for the future.

I have seen the result of a failure to be competitive. I have seen small towns in which home after home is for sale because jobs have been lost in a deteriorating economy. Mr. Chairman, as you well know, that is what this issue means to us and the folks we represent—not some abstract problem, not some partisan display of gamesmanship, but the very essence of our daily lives.

That is my statement to the committee this morning, Mr. Chairman.

[The prepared statement follows:]

REMARKS BY ROBERT H. MICHEL
COMMITTEE ON WAYS AND MEANS
FEBRUARY 5, 1987

Mr. Chairman and Members of the Committee, I appreciate having this opportunity to lead off your hearings on the broad issue of trade and competitiveness.

We all know what the driving force of these hearings is - the major trade deficits we have been experiencing over the last several years and their impact on various segments of our economy. We know the problem, but what we are still grappling with is the proper solution, if there in fact is a single solution.

I recently saw two public opinion findings which personify, in part at least, the problem we are facing. In one poll, 69% of the public favored limiting imports in order to protect American jobs. At the same time, 61% favored free and open trade if it would get the best and least expensive products for American consumers.

Another poll showed that 57% of the public is making its buying decisions on the basis of the quality of the item, with only 18% indicating that a "made in USA" label is the most important criterion.

What this shows, then, is a great dichotomy between public opinion in a generic sense and what people are willing to do in their own personal cases. If people were willing to stop their purchases of foreign-made products, the trade deficit would vanish overnight. But clearly that is not going to happen, in part perhaps because people are not going to look at labels when they buy, but are going to make decisions based on quality and cost.

I think it is fair to say, then, that there would be considerable public outcry over any action on our part that would restrict the availability of better quality products or force people to buy inferior products because better quality items might be priced out of their range.

What we are faced with, in other words, is a multi-pronged problem that cannot be simply addressed through protectionist-type legislation. Last year's House passed bill came dangerously close to falling into that category.

Fortunately, I think attitudes have changed somewhat over the past year - to the point where I see a growing consensus in the direction of a multi-faceted approach in addressing the problem.

Lowering the trade deficit requires action in the exchange rate area. We have seen positive developments in this regard in recent months, which hopefully will lead to improved trade results in the months ahead.

We need tough actions in dealing with trade abuses against us by other nations, whether they take place in the form of dumping, excessive duties, or quota restrictions against our products. Fortunately the Administration has come a long way in this regard in the past couple of years, to the extent that it has now undertaken more Section 201 and 301 actions than any other Administration in history.

As a result of these actions, we have achieved significant agreements in such diverse areas as steel, machine tools, lumber, textiles, semiconductors, and corn. The agreement on corn with the European Economic Community announced just last week was a precedent-setting one which assures access to Spanish markets for American corn and sorghum producers.

But let me caution that while strong actions are necessary in many areas, we must not become such a bully-boy that we stimulate widespread retaliation against our exports by other nations. Trade legislation that requires Presidential action without sufficient discretion may very well be counterproductive and lead to trade wars that would not do anyone any good.

The trade deficit also requires that we become more competitive as a nation. We have to face the fact that in some areas we are simply not going to be as competitive in world markets as we once were. In agriculture, for instance, our trade surplus, exports over imports, was only \$2.8 billion last year, compared with \$25 billion just 5 years ago. That decline may in part be due to the exchange rates, but in a broader sense it is due to the fact that other nations are now becoming self-sufficient in meeting their own needs. I was surprised to learn the other day, for instance, that Saudi Arabia, a desert nation, is growing a significant wheat crop.

So we are not likely to regain back all our old agriculture markets, even if all other conditions are favorable. We need to concentrate more on other uses for farm products, such as the use of corn for ethanol production.

The same is true in the industrial sector. We are no longer the world's primary source of steel, and will never be again. We see declining markets in automobiles and other heavy industrial products. There is no question but that our industry must have the opportunity to operate on a level playing field, in terms of international trade, but the fact is that even if the field were level, we would often come up short simply on technological and quality grounds.

The American auto industry is an example where we really let the world pass us by. While other nations were making advances technologically, we were sitting back fat and happy. The result was that we lost our edge in terms of pollutant emissions, gas mileage, and overall quality, we still haven't regained it.

American industry as a whole must regain its initiative. That requires both more innovations in existing products and new products entirely. Government can help, in terms of certain tax incentives for example, but the primary push must come from industry itself and the people who run the show.

I should mention, incidentally, that last year we enacted a technology transfer bill which paves the way for greater collaboration between American industry and federal laboratories. I hope industry will take full advantage of this opportunity and begin to utilize some of the ideas being developed by our labs and turn them into commercial products.

The shift of industry into more competitive areas also requires a retrained workforce. The Administration will be proposing some innovative ideas in this regard, and I hope they will be given serious consideration.

Let me turn now for a few minutes to the legislative process itself. As you know, the Administration is in the process developing an overall proposal, and hopefully will have it up here by February 19.

The encouraging thing is that the Administration this year is a player in the game. From what I have seen of its proposal thus far, the Administration has come a considerable distance from where it was just a year ago.

There will obviously be differences between their bill, H.R. 3 introduced by the Democratic leadership, and H.R. 15 which we introduced on the Republican side. But I don't think the differences should be so major that they cannot be compromised out if there is a willingness to do so.

I would hope in this connection that a process can be established whereby representatives from the Administration and Majority and Minority Members or staffs can sit down regularly in working groups in an effort to iron out differences and put together a truly bipartisan, bi-governmental-branch bill that can be signed into law.

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We should be under no illusions that anything we are going to enact will be a panacea to solve our trade problem. That problem demands action on many fronts, and cannot be solved by government alone. But we can help to move things in the right direction if we leave politics at the water's edge and work together in crafting responsible legislation. I hope we can do so.

Chairman ROSTENKOWSKI. Thank you very much, Mr. Michel.

Let me just make one or two comments. I certainly appreciate the leader's resolve with respect to working out a bipartisan bill. I appreciate even more the fact that the administration has now recognized that there is a need for legislation in the area, and that we are going to get their cooperation.

I think truly this is a different atmosphere under which we are working, mainly because there is a great hope that we can stand united, telling the rest of the world that this is going to be our policy—united as opposed to divided.

I am certainly in hopes that we are going to work diligently at the task of creating legislation. And I must share your view that it is a very bold timetable. I dislike very much giving dictates at which time we should be concluding certain phases of writing legislation, because the press at that point always interprets the target date as the concluding date; and, from that point on, it is a failure.

I am going to try as much as I can to meet the schedule, but if we are a day or so, or a week or so short, I think it is because we want to write good legislation. Now, I am not suggesting that I am not going to work the committee, and Mr. Gibbons isn't going to work his subcommittee, as hard so we can reach those dates; but I just dislike very much to have the media suggest that because the target date wasn't reached, we are on a downslide.

But, Bob, thank you very much. You have always been concerned about this matter. I recognize Caterpillar, in your congressional district, has been one of the real large world traders. For those of us who aren't aware of it, Illinois has been one of the largest traders in the United States.

Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman.

Thank you again, Bob, for your excellent statement. Trade is something that is hard for the man on the street to understand. I mentioned to Clayton Yeutter, the Special Trade Representative, one time, if he would go down and explain to my unemployed zinc workers and unemployed toolmakers what a 201-301 is. They don't understand what I am talking about. It is something which has hit all Members of Congress in their own districts.

I had General Electric making tools in my district, and just this past month they announced they are moving to Korea. And Rohm & Haas is closing down their Plexiglas line because they can't compete with imports from Taiwan. And I can mention others. Our electronics industries have moved into Mexico.

People know something is wrong when their jobs are leaving and going to those countries, and they expect us to do something. That is why I am pleased that this year we are not saying, well, it will pass, the dollar will go down further, or it will stabilize or something, and things will take care of themselves. We let trade float for a few years, and it did not take care of itself.

So, I think this is the year. I hope we can come up with a bipartisan bill that will be signed and not just politicize the issue and end up with nothing. As I say, it is a problem.

Some have been critical of the so-called 301's, and so forth. You have mentioned in your statement that the President and the administration have been very good and very active this year.

But how would you suggest that we open more markets for our products abroad other than by just negotiating? We have accompanied our own Trade Representatives abroad to negotiate, and we find even after visiting a number of times, that each visit to negotiate is more or less like the first. Heretofore, we found they drink tea and serve tea well, but we don't get much action after we leave.

The chairman, I think, did a splendid job on our recent trip to Korea, Japan, Hong Kong, and Thailand. He let them know something had to happen. If something didn't happen in their countries, we were sure that something might happen over here.

Do you think we should be a little tougher in our dealings with these countries? For example, just recently we threatened to retaliate against the European Economic Community with 200 percent duties to counter their import restrictions on U.S. grain exported to the EC, and we got action right fast. Should we do more of that, or have you thoughts about it?

Mr. MICHEL. Well, let me just say that the very fact that we are working together this time, hopefully, between the administration and the Congress, is a good thing. It is one thing to have us as individual Members, you know, going to some of our trading partners and making a point as vigorously as we can, maybe selfishly motivated because of our own district or whatever. But they are very perceptive, and they see this as just one little straw in the wind not having the full force and effect of law of perhaps what the U.S. Government eventually is going to do. They take it for what it is and we get the usual song and dance routine.

But I think if they get the definite impression that this time around the Congress and the administration are on the same wavelength—which means that what we do will have teeth and force and effect—I think you are going to get a good response from them.

Mr. DUNCAN. Some people have suggested since we have a divided authority on trade, with Commerce interested in it, and the Special Trade Representative, that perhaps we should have a Cabinet-level person for trade.

Have you given any thought to that?

Mr. MICHEL. I haven't really given it any. I know in times past, and even presently we have had two or more individuals involved. Obviously, these positions would be collapsed into one, and then you have got that personnel problem to deal with in the administration.

I would assume that eventually the Secretary of Commerce, Malcolm Baldrige, would be asked to testify, whether before this committee or the Commerce Committee. Commerce has got to be a very active part of this bill at some juncture. Now, if you simply want a change in name to place more emphasis on the fact that it is foreign trade we are more interested in rather than how we monitor domestic trade, well, if it highlights it or if it gives it more visibility, I know I have no particular problem with that.

But then again, you might run into conflicts in other areas, such as the State Department, from time to time. I haven't really thought that one all the way through, frankly.

Mr. DUNCAN. Our former Special Trade Representative, Bob Strauss, has recommended that we consider a Japan-United States

trade summit. But we have as many problems with some other countries, also.

What is your thought on that? Should we have a trade summit with Japan?

Mr. MICHEL. Well, I think on occasion you have summits, but I am not altogether sure it would be appropriate while we are in the midst of dealing with this subject in a legislative way. I guess if I were a Chief Executive, if it were my responsibility, while that was going on at home, I would be a little reluctant, really, to have a summit before Congress has completed its action.

Mr. DUNCAN. One other question, and then I will close out. One problem, according to the President's Commission on Industrial Competitiveness, is our declining worker productivity compared with the rest of the world.

Would you care to comment on that?

Mr. MICHEL. Well, now there is the one initiative in which there is a significant amount of money earmarked, for example, in the retraining area, in Secretary Brock's bailiwick in the Department of Labor. I assume that components of this package will be discussed over in the Education and Labor Committee where we will again go over this whole matter of retraining of displaced workers, whether it is relocation, stipends and all the rest. It turns out to be a very costly program.

I might make the observation that I warned the Secretary that:

Mr. Secretary, it has got to be something different than what we had in the past, because I supported trade adjustment assistance. But when we found we had large sums of money earmarked for either retraining or moving or relocating, only 2 percent of the workers availed themselves of the retraining; and maybe only 1 percent sought of the money for relocating.

I know in my own district how tragic it was to hear some young lady the other day on a talk show saying something to the effect, "My husband has been laid off at Caterpillar now for 4 years. We haven't found another job," et cetera, et cetera, et cetera.

My point is, in that kind of setting with those poor, displaced workers, who, in my judgment, frankly, are not going to be called back in that very same job or position because it has been changed, it has been automated, it has been roboticized, any number of other things, that is one of the things in this whole business of considering trade that we have got to reeducate the American public on the dimension of the problem.

It won't be met with one single piece of legislation. It covers a wide range.

Mr. DUNCAN. Don't you find, though, that older workers, for example, at Caterpillar, can't be retrained or don't want to be retrained?

Mr. MICHEL. That is another one of our problems.

Mr. DUNCAN. It is something if we talk about retraining across the board, but these people don't want to be retrained.

Mr. MICHEL. I think the second is, I don't know specifically but I think it is something more in the nature of being more flexible. You know, you are trained for this but you ought to be flexible enough to take on this other kind of obligation or job in lieu of one that you would prefer to have.

Mr. DUNCAN. Thank you, Mr. Chairman.

Thank you.

Chairman ROSTENKOWSKI. Mr. Gibbons will inquire.

Mr. GIBBONS. Mr. Leader, we appreciate you coming here, and I look forward to working with you.

I guess the burden falls very heavily upon me to try to preserve bipartisanship, because my subcommittee is the first place in the whole process in which we start to really vote. I want you to understand that I am not very partisan by nature, and I want bipartisan support. But we can't run out the first time we lose a vote and say bipartisan support is gone. I am afraid that is what happened last time. And when it is gone, it is gone.

Frankly, I think both of us have got to stretch in order to preserve bipartisanship. I pledge to you, I will stretch.

Now, yesterday, right where you are sitting, the distinguished head of the Congressional Budget Office testified. In response to a question, he said he thought that about 90 to 95 percent of our trade problem was directly responsible—or the trade deficit we had was directly responsible to the fiscal deficit that we have run persistently over such a long period of time. He pointed out, also, that most economists believed that.

Now, I realize that even he can be wrong, and most economists can be wrong. I happen to agree that a lot of our trade deficit is a result of our fiscal deficit. But, I must say, there are things in the area of substantive trade legislation that we must accomplish in order to get some of this trade deficit down.

I think that we principally fall into two categories: those who want to do practically nothing and those of us who want to intervene to some extent and make sure that the playing field is really level and that the laws that we have are vigorously enforced.

So really what we are doing is not breaking a whole lot of new ground, but we are trying to come back and make sure that the fundamental laws that we have had for a long, long time in this country are vigorously enforced. We are plowing some new ground.

Mr. Pease has suggested—and I agree with him—that we have, for too long, avoided the thicket that includes working conditions in the equation in which we talk about. Now, Mr. Pease is not talking about, as I understand him, establishing minimum wages or hours, or things of that sort; but he is talking about some humanitarian standards.

For some reason, your party objected to that last time. I hope that they will take another look at that and work with us constructively to try to make sure that, as we open our trading markets, that we don't destroy our standard of living.

There was another problem in the bill, and that is the Gephardt amendment. The Gephardt amendment essentially said to those who had very large surpluses, that is not good for world trading conditions and not good for our trading conditions. And let's sit down and bargain over these things—sort of a summit, like Mr. Duncan mentioned, between the two countries that had these huge imbalances.

After that, if we could not work out a solution, then we are going to have to take some kind of action, some effort on our side of the trade barrier to do something about it.

Those are not radical proposals, really, but unfortunately last time some in the White House and some on this committee said that they were terrible proposals and made our bill awfully protectionist. I don't believe, Mr. Michel, that our bill was protectionist last time. I think it got a bum rap. And I hope that we can work together and keep our rhetoric down—I will try to keep mine down—so that we can get these things accomplished.

I know you have always had that reputation as a leader. I know you have suffered in Peoria from the problems of Caterpillar. But Caterpillar has been one of the greatest advocates of free, open, competitive trade in the world, and has profited by it. The community of Peoria has profited by it.

So, it may not be a very good question I have asked you, but I gave you a lot of room to ramble around in an answer in case you would like to.

Mr. MICHEL. Well, I think, Mr. Gibbons, I don't see the administration playing a part in trying to depress wage rates and all that. I think there has been a re-thinking of that. That certainly is not our role.

I think what we would be more interested in doing, as we view the Third World countries, is to bring them up to as close to our standard rather than keeping them forever down where they are.

You mentioned in a generic sense party, and I would say, looking back historically in my party, yes, I think that is one of the things we have learned and have come a long way. So I think we can meet that one.

Yes, we are going to have some of our differences as we put this piece of legislation together. I guess I just ask front-on that if we are making a fresh start, let's not just take the full text of what was thrown out last time and start from there. I think the good faith effort requires that we take some of those provisions that are not controversial—put those together and find out how much we can agree on, No. 1.

Then, the contentious items—I am not altogether sure how the rule would be constructed, but I assume by title, depending upon the committees that are involved; might be allowed as amendments to be debated freely and openly.

This bill ought not to be scheduled for 1 day's debate, take it or leave it. That does not do the legislative process justice. We were here to legislate. You have got to set aside a week of debate on this thing and let every Member speak his mind, and an opportunity to hash it out. Then, the administration, if they are going to make the final judgment here, can see a judgment call on the part of individual Members on the contention items. That is my view. I think we legislate best in that environment.

Mr. GIBBONS. I want to talk to you about that amending process on the floor. You know, we had a disaster on that, and that disaster is still a potential disaster. The reason for the closed rule began right here in this room in 1930.

Mr. MICHEL. Yes, I know.

Mr. GIBBONS. When Mr. Hawley took a bill to the floor, and it just got out of hand.

There is an awful temptation to logroll on a trade bill because each one of us has within our own district some particular trade

problem that we think we can best solve by a little protectionism. If there is going to be this logrolling, I would rather try to get it over with in this committee and keep it at a minimum.

I am scared to death of an open rule on the floor on a trade bill. I am afraid we would be right back into the 1930s again, and of course I think the President would veto it. But nobody can tell whether we can sustain his veto or not.

Mr. MICHEL. Well, the points you make are very well taken, Mr. Gibbons, and I know particularly with respect to the Ways and Means Committee, and when we were talking about the tax bill before, tax reform, you all know the difference, and that took place there, and all the statesmanship that was applied to just get a package that was acceptable. I understand that.

But I guess it is maybe in some of these other committee areas where, frankly, I just think we are better served if we give Members at least some opportunity to amend and scratch around out there. That is what we were sent here for.

Chairman ROSTENKOWSKI. Mr. Russo.

Mr. Russo. Thank you very much, Mr. Chairman.

I welcome the opportunity to have our great Republican leader here. I respect his leadership qualities and legislative skills. I know, with his help in the past, we have been able to forge some bipartisan support on our side of the Capitol. Unfortunately, we have not been as successful on the other side of the Capitol.

This year, we have a new—every year we deal with trade legislation, Mr. Leader, we have new buzz words that come up, new slogans. This year, it is the relation between the trade deficit and the fiscal deficit. Last year, it was exchange rates. The year before that, it was trade barriers. Every year we try to find something else to blame. But the most important thing we have is the failure to get by both branches of the Congress—I can take pride in the fact we have done something on the House side—plus inactivity by the administration.

Every year, we come up with buzz words. We know there are many reasons for our trade problems: trade barriers, exchange rates, cooperation between business and labor, the fiscal deficit, the need for pride in workmanship, quality, all these different things. But it seems that the biggest problem we face is inactivity.

Constituents in my district—I am sure constituents in your district—wonder why the Commerce Department, why the ITC, why the executive agencies don't move on petitions filed by American companies. In fact, I have had people comment in my district, "Who do those people downtown work for? Us, the Japanese, or our other trading partners?" It is that kind of frustration that leads to the kind of protectionist attitude that we have around here.

It is not the question of being protectionist. The fact is, when you don't get any cooperation downtown, whether it is a Democratic administration or Republican administration, the legislative branch is thwarted in its ability to try to act.

I certainly hope your comment on page 2, which says that this administration has done a complete about-face in dealing with trade, was something that you sincerely believe is happening. Because, without their cooperation, we will have the kind of trouble that Sam Gibbons is trying to avoid. Because if we pass laws again

in this trade bill only to have the administration let deadlines slip, not enforce them, you are going to have a real problem.

In your meetings with the President and the Cabinet are you convinced that they really, truly want a bipartisan effort and will work with the Congress on enacting legislation?

Mr. MICHEL. A very short, simple answer today is: Yes. I would remind the gentleman, I think I have been involved in this thing trying to spur my own administration on as far back as 3 and 4 years ago—we can detail that very carefully—with people who are no longer in the administration but were in certain positions then, that I was trying to get them to focus on the problem and help us come up with an answer. It was pretty much summarily dismissed—not without some argument.

But in short answer to your specific question, there has been a change of attitude on the part of the administration. And we will hope to be working together.

I should also remind you, as I alluded to earlier, that this administration has probably done more in the way of enforcing our trade laws than any other in history. Perhaps they could do more, but they have come a long way.

Mr. RUSSO. Mr. Leader, I find it interesting whenever there are pressures on, administrations always seem to try to do something. We had a machine tool case that went to the Commerce Department and in the investigation, the Department found injury. The case was sent over to the President. Two and a half years later, after we started doing something here in the Congress about some type of tough trade legislation, did we get action from the administration and our other trading partners.

Those are the kind of things that cause frustration. If the Commerce Department, finally, after an investigation, finds injury, just to have the President sit on it for 2½ years hoping it goes away, while people are losing jobs in your district and my district because companies are going out of business because of inactivity by the administration, that is what causes frustration.

I certainly appreciate the opportunity to work with you on this legislation, because I think you are one of the best legislators we have to deal with in the Congress.

Thank you.

Chairman ROSTENKOWSKI. Mr. Frenzel will inquire.

Mr. FRENZEL. Thank you, Mr. Chairman.

Mr. Leader, I hope you will forgive me for not being here when you performed, but having read your speech I know it is characteristically brilliant.

The last interrogator asked you whether the President was serious about working with Congress. You assured him, as you did in your testimony, that he was. My fear is the other way around; that Congress is not a bit interested in working with the President.

Congress, for instance, instead of introducing new legislation, is going back on legislation that had not been worked out in a bipartisan way last year, which started with the old H.R. 4800, which was an anathema to the President, and in a sense that is throwing down the gauntlet at his feet. Is it not?

Mr. MICHEL. Well, that is true. We made mention of that earlier, that I thought in good faith we ought to really begin with something brand-spanking-new, and then build on that.

Mr. FRENZEL. Well, I agree. I hope this committee's intention is to review all of that then and to build a new bill. I think the President has been far more forthcoming than this House has been, or the leadership of this House, who insist, (a) that we start with a bill that is impossible; and (b) that we do it within an impossible time frame. When I think only of the Department of Labor sections, which require cancellation of programs, reorganizing and structuring new programs, plus, developing funds to handle these programs, which involve the jurisdiction of three or four committees, I really begin to wonder if we are serious or whether we just want to hit the President with a 2 by 4.

Mr. MICHEL. Well, I commented before your entry, Mr. Frenzel, of my concern over the fast track on which we find this piece of legislation, the deadlines to be met, particularly when there are seven committees involved. It may be that the Ways and Means piece should stand on its own, and that some of these other items be split off and ride separately. That would give us an opportunity, certainly, to amend and dissect and perfect to a much higher degree than what we can do in the mega-bill approach which almost takes on the character of the end-of-session continuing resolution about which we all have been so critical.

Now, we all know that when we get to that point, things slip in and we just don't have the attention to detail that we do when we are taking them piece by piece. That is a concern I have. But I know the Speaker feels very strongly; and, as the chairman indicates, he will be testifying next week probably before the committee to amplify or to enlarge upon his view as to how he sees this thing unfolding.

It may be at that time the gentleman would want to raise the question with respect to this time schedule that, in my judgment, does put us under the gun. I don't mind moving things along. As a matter of fact, we have been talking about relationship between the budget deficit and the trade deficit. One of our first obligations is to address ourselves to the budget itself. We ought to be moving there and making some determinations there, consistent with what you are talking about.

Mr. FRENZEL. Thank you. Your presence is important and appreciated.

Chairman ROSTENKOWSKI. Mr. Pease.

Mr. PEASE. Mr. Chairman, I have no questions. I would just like to welcome our very distinguished colleague and say we look forward to working with you.

Mr. MICHEL. I thank the gentleman.

Chairman ROSTENKOWSKI. Mr. Flippo.

Mr. FLIPPO. Thank you, Mr. Chairman.

I just wanted to thank the distinguished gentleman for his testimony.

Mr. MICHEL. Thank you, Mr. Flippo.

Chairman ROSTENKOWSKI. Mr. Chandler.

Mr. CHANDLER. I will reserve my time. Thanks.

Chairman ROSTENKOWSKI. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman.

I, too, welcome the testimony of our distinguished minority leader. Just a couple of observations that I would like to inject into this debate that have come up during our discussions of trade policy over the last couple of years.

Under Secretary of Commerce Bruce Smart testified, and Clayton Yeutter reiterated the point that, if the entire world practiced free trade, we would only have, at best, a 20-percent impact on our trade deficit. Which means if we had a \$170 billion trade deficit in 1986, that in a total climate of free trade, it might have been only \$140 or \$135 billion deficit.

What that suggests is that there are a lot of additional complex factors involved in this problem. It seems that one of those factors is our penchant for consumption in this country. We have skewed the Tax Code toward consumption. We have punished savings for 50 years in our Tax Code. The Japanese, for example, for all practical purposes, don't tax interest, dividends, and capital gains.

What we did most recently in the so-called tax reform of 1986, in my view at least, tends to work in the wrong direction. We have raised capital gains taxes. Roger Mentz was here before the committee testifying on budgetary matters, and I recited to him a 1985 Treasury study that suggested that lowering the capital gains rates had the beneficial effect of not only increasing revenue, but venture capital for investment, stimulating savings and, as well as stimulating personal savings in the country, stimulating investment.

And yet, we have now determined to go in the opposite direction in the Tax Code. We have eliminated incentives in the code, such as a more generous depreciation schedule in the investment tax credits to get plants in this country to modernize and increase productivity. We have the lowest productivity increases in the United States compared to the rest of the industrial nations of the world.

Without necessarily arguing that ITC or generous depreciation schedules are the best solution to the problem, on the other hand, to take the action we took last year on that tax bill, at least, would appear to me on the surface to be moving in the wrong direction.

The same is true with regard to our treatment of IRA's and 401(k) incentives for people to get into private investment and savings programs.

I am just wondering whether, in your estimation, it wouldn't be advisable when we address the question of increasing competitiveness to look at some of the changes that we made in the Tax Code, those provisions of the code that may be working contrary to what we want to achieve in trying to redress the trade imbalances that we experience today?

Mr. MICHEL. I am surely assuming during the course of the testimony that you are going to be hearing that those of you who have that real concern would be asking the appropriate questions of those witnesses who are prepared to respond.

My own feeling is, as I survey the business community particularly at home, that with the tax changes in 1981, TEFRA in 1982, 1984, 1986, perhaps we ought to let things stabilize for a while. I was working up my own income tax return until just a year or two ago trying to put myself to the test of what the average taxpayer

does there, to go through the ropes myself. I must confess, even I have now succumbed to the need for having to get somebody to prepare my own return, what with all the changes we have enacted.

Mr. CRANE. You can't deduct that cost any more.

Mr. MICHEL. Now that we have enacted the tax reform package, I think we have to let it lay for a while and let everybody find out where we are.

Now, admittedly, the gentleman and I share some of the same feeling about some of the items in that legislation take as the medicine, of course, with the sweetness of it. But I don't know that I would be moving immediately to change those, though I think you ought to surely explore that.

With some of the time schedules in the reform laws, we are not going to see its effect for several years, and it would be my judgment that we ought to just get a better fix on how it definitely affects things before putting people to the test of making a judgment on its effectiveness.

Mr. CRANE. In that regard, when I cited figures that suggest if capital gains went down to 16 percent maximum rate, which would be the optimum level for generating revenues on the one hand, and stimulating the creation of venture capital, Under Secretary Mentz did not dispute it. But he suggested that if we were to go back and look at provisions of the Tax Code with the reforms of last year, that this might start an unraveling process.

The fact is, the unraveling process started with the W-4 forms that even Secretary Baker says we must revise. I mean, they are infinitely more complicated and confusing to taxpayers than what preceded these new forms. And he has already said they are going to revise them.

My only argument is that, as I suggested to Secretary Mentz, if it is bad tax law, and we know it is counterproductive, why is it sacrosanct? In the case of the lowering of the capital gains tax, for example, you can achieve a revenue increase that addresses budgetary considerations, and simultaneously provides the kinds of incentives for enhancing our productivity capabilities, and it addresses trade imbalances, too.

To me, none of that should be off the table in our considerations when we talk about addressing this trade deficit.

Do you share that view?

Mr. MICHEL. Well, I share some of that view, but having to look down over the entire legislative process, what the gentleman would like to have done will obviously provoke a countermeasure on another facet there that he and I would not like to have happen. And that is our dilemma here when we are responsible for putting together an entire package that eventually will fly in both bodies of the Congress, to be signed by the President.

But I think we have to talk about it. We have got an obligation.

Mr. CRANE. Thank you, Mr. Leader.

Chairman ROSTENKOWSKI. Mr. Donnelly will inquire.

Mr. DONNELLY. I have no questions except congratulating the leader for the tone of his table.

Chairman ROSTENKOWSKI. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman.

I want to express my appreciation to you, Bob, for appearing before the committee. I look forward to working with you and others in the trade field.

Having served on the Trade Subcommittee for 10 years, and considering the various difficulties that this Nation faces, particularly in the last 6 years, the last 3 years we have had trade deficits of over \$100 billion every year. I really don't see we are galloping so quickly to try to address the problems.

Maybe we sat so long, for whatever reasons, and have taken no action. I tend to agree to some extent with our colleague, Phil Crane, talk about capital formation and savings, and I tend to have some sympathy with that viewpoint. I must say, as all of us know, we are not going to change the Tax Code in any massive way this year. I hear my subcommittee chairman talk about some testimony from the CBO, that 95 percent of our problem is the fiscal deficit. Serving on the Budget Committee, also, I know there is a struggle going on now trying to find \$60 billion to even get the deficit to try to meet Gramm-Rudman targets of \$109 billion. I don't anticipate any great movement in that direction.

Furthermore, if the fiscal deficit is 95 percent of our problem, we are just wasting our time here. Because if the other 5 percent is the part that we are talking about as far as competitiveness is concerned, we are spending a great deal of time for nothing. Maybe that is our primary problem.

Of course, the real difficulty is that the administration and the Congress have, for whatever reasons, failed to take any action over the past few years dealing with the trade problems and our marketplace relative to the rest of the marketplaces around the world. We have actually just turned our heads and hoped that it would get better.

That makes no difference to me whether it happens to be—when we talk about protectionism. You know, if it is the lumber people, who suddenly have a great deal of interest in lumber, do not see action taken relative to Canada, that is protectionism. If it is automobiles, people who have voluntary quotas don't think too much about that being protectionism. Or, if it is steel and we enter into an agreement as to the amount of steel that can come in, and here suddenly those people don't look upon that as protectionism.

I have a little, harmless bill before the Congress dealing with textiles and garments, and suddenly Jenkins is a protectionist. Well, I am going to enjoy this year very much, and I expect to play some small role in it. I look forward to working with you and the rest of the House in developing a good bill. I always look forward to working with you, because you are one of my favorites.

Mr. MICHEL. Well, the gentleman has been well-known in this field for many years, and we oblige his judgments and contributions he makes. And when all is said and done, we are going to have an American trade bill when this thing is all finished.

Chairman ROSTENKOWSKI. Bob, I wish you would share with me what your charismatic values are to get to be one of Eddie's favorites, because I would like to be one of his favorites, too.

Mr. MICHEL. Maybe he and I don't have to make those really day-to-day difficult decisions of differences of opinion between us, you know. I can sit above it all. But I am sure the gentleman's as-

sociation with the distinguished gentleman is on a very cordial basis. I know that for a fact.

Chairman ROSTENKOWSKI. Mr. Moody will inquire.

Mr. MOODY. No questions. Thank you.

Chairman ROSTENKOWSKI. Mr. Andrews will inquire.

Mr. ANDREWS. No questions, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Brown will inquire.

Mr. BROWN. No questions, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Pickle.

Mr. PICKLE. Mr. Chairman, I don't have any questions.

I want to welcome Mr. Michel to the committee hearing. Some of us Christians went out to the prayer breakfast this morning, Mr. Chairman, and we missed your testimony here. We also missed you. We missed the strong baritone voice of Bob Michel there this morning. I bring you greetings from that group.

Seriously, I have looked over your testimony and I think we all agree we should stress competitiveness in this legislation, whatever that means—you call it a "buzz word." But if we can work that in, we ought to do it.

The only thought I leave with you here is we must also enforce the trade laws we have on the books today. While you say that this administration is the toughest—and under section 301 that may be true, if they carry out the agreement, for instance, that Ambassador Yeutter has made with Japan regarding trade in semiconductor business. I don't know that they are doing that, whether they are following the guideline or maintaining the schedule. I am afraid they are not; that is, Japan is not.

So I think we have got to be vigilant on this. All I say to you is we have put competitiveness in this forum, and if we can, and maintain—we should enforce and strengthen laws currently on the books. That is not protectionism.

That is the thought I want to leave with you.

Chairman ROSTENKOWSKI. If there are no further questions, I want to thank you, Mr. Michel, for joining us and sharing with us this hour. It was most informative.

Mr. MICHEL. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Thank you.

Mr. MICHEL. I think we really do impress our trading partners more when we project an image of all of us working together, and that it is a united—pretty much of a united kind of position we all take, legislative and executive.

That is the thing that will make our trading partners take notice. I hope we can work together.

Chairman ROSTENKOWSKI. Thank you very much.

Mr. Bonker, welcome to the committee. We know your efforts in this area and the magnificent job you have been doing trying to coordinate a policy.

We certainly appreciate all the assistance that you have given us. We are looking forward to your testimony, and with that, you may proceed.

STATEMENT OF HON. DON BONKER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE, COMMITTEE ON FOREIGN AFFAIRS, AND CHAIRMAN, HOUSE DEMOCRATIC TRADE TASK FORCE

Mr. BONKER. Thank you, Mr. Chairman.

I consider it a privilege to come before your distinguished committee and offer a few comments on the trade bill.

I am going to be very sensitive to the committee's time. I have a statement I shall offer for the record and just summarize my remarks.

Chairman ROSTENKOWSKI. Your entire remarks will be included in the record without objection.

Mr. BONKER. I took note of what Sam Gibbons said about the need for control of the process and his reference to Smoot-Hawley.

During that special session of Congress in 1930, the bill reported from the House Ways and Means Committee called for tariff increases on some specific products. On the House floor, the bill snowballed out of control; 1,112 amendments were offered and accepted increasing tariffs on a whole range of products.

Not to be outdone, the Senate considered and accepted another 1,200 amendments, prompting one Senator to say, "We placed a tax on everything but gall!" To which another Senator responded, "Yes, and if we did that, it would bring in considerable revenue."

I am hopeful that we won't repeat the mistakes of the past.

Mr. Chairman, there are two sides to this trade issue that need to be addressed. On one side is our staggering trade deficit, which is having a devastating effect on our country's domestic economy. The \$170 billion trade deficit in 1986 represents approximately 4 million lost jobs. Everywhere you look across the economic landscape of this country—in all the congressional districts that are represented here and that were represented on the Democratic Trade Task Force I chaired last year—there is ample evidence of the wrenching economic problems caused by the globalization of our economy.

But there is another side to the trade issue: the imminent trade wars on all of our borders.

Consider the case of Canada. No two countries have a more integrated economic and cultural relationship than the United States and Canada. This past year, however, as we attempted to negotiate a free trade agreement, we were very near a trade war with Canada.

We also have serious problems with the European Community. We have momentarily set aside the proposed 200 percent tariffs on certain European products in retaliation for Spain and Portugal coming into the Community. That problem has been settled for the moment, but now we have a new problem that is more threatening—predatory financing of aircraft.

We have problems in Latin America with the debt crisis. We have problems with Asia and the unfair trade practices that have been so widely identified across the Pacific.

The Wall Street Journal noted a few weeks back in a lead article that the trade deficit has now replaced the budget deficit as the country's No. 1 economic issue.

These trade problems are structural, and they are going to be around for a while.

We must also deal with our growing external debt. Economists tell us the only way we can work ourselves out of that external debt is to export more than we import, but I don't think that is going to be realistic in the short term.

So, this committee is going to be challenged like never before to come up with legislation that is balanced, effective, and that will help resolve our trade woes in short order.

Competitiveness is fine for a long-term prescription to the ills of our economy, but in the short term, we have a crisis. We are going to have to deal with it responsibly.

Mr. Chairman, I want to comment on title I of H.R. 3, the portion of the bill within this committee's jurisdiction, which I think contains many of the most potent sections of the bill.

Before that, I want to discuss the House Foreign Affairs Committee portion of the bill—title III, dealing with export promotion. In a few weeks, I will be announcing a major reorganization of our export promotion programs. Export promotion is the positive way to deal with the trade deficit. We need to do much more of it.

We also need to do something about mixed credits, tied aid credits, concessionary loans, or however you want to characterize them.

A few weeks ago, Congressman Frenzel and Congressman Chandler and I made a trip to India, Indonesia, the Philippines, and Korea. We were there with a private sector delegation to promote the export of telecommunications products and services. We were stunned by what we heard from government ministers who said they are not going to make their decision on the basis of price or quality but on financing. Essentially, whatever government was prepared to put together an attractive financial package would get the contract. The French and Japanese engage extensively in predatory or concessional financing, but the United States has a very limited program. We need to deal with that problem.

On title I, which is currently before your committee, I believe that the committee acted responsibly on H.R. 4800, which passed the House last year, and has been reintroduced as H.R. 3 in the 100th Congress.

We need to strengthen our trade laws to compel a reluctant President to act whenever there are unfair trade practices identified. It is a political imperative as well as an economic necessity. The authority is there, but the administration is largely unwilling to act. With the exception of his September 22, 1985, "strike force strategy," the President has refused to act decisively.

We need trade adjustment assistance. I want to commend the members of this committee for recognizing that issue, and now the President is coming around to support the need for adjustment assistance in this changing economy.

We need to put forth our list of grievances, if you will, before the GATT.

We need to transfer to the USTR some decisionmaking so that we can depoliticize the process when it comes to section 201 and section 301.

We still need, Mr. Gibbons, a resource subsidy provision in the legislation, despite recent rulings by the Department of Commerce.

We need to put some more teeth into section 301, to insure reciprocity and access to foreign markets for our exporters.

Finally, Mr. Chairman, I want to comment on the amendments that were reported by this committee last year.

Had the legislation introduced by you and Mr. Gibbons not been amended, we would have seen an entirely different debate on the trade bill. I was terribly distressed that the media and others focused exclusively on two amendments instead of the broad reaches of that trade bill.

There are so many good things in that bill, including education, trade adjustment assistance, export promotion and easing restrictions on technology exports. That is as close to competitiveness as we will ever package in this Congress.

Yet, all the debate centered on two amendments that were not in the original bill but were added in committee.

I defended the Gephardt amendment, because I feel we need to put other countries on notice that if they run up excessive trade surpluses against the United States while maintaining unfair trade practices, we have to at least negotiate. Throughout the entire debate over the Gephardt amendment, nobody ever mentioned the President had a waiver authority if he felt that the imposition of any restrictions would harm U.S. economic interests—a total waiver authority.

Second, on the Pease amendment, there was nothing new or revolutionary about the Pease language in this bill, and I would stress that the Pease amendment was also discretionary.

International labor standards are already recognized in U.S. statute in the Overseas Private Investment Corporation legislation, which disallows participation of OPIC in a country which does not take steps to implement worker rights.

The generalized system of preferences statute allows the United States to deny GSP benefits to countries which do not recognize workers rights. Our representatives at GATT have raised the question of international workers rights, as well.

I believe that there is a broadly recognized need in international commerce for some international labor standard. The United States already has certain provisions in existing law, and so do many of the other advanced countries, so we are not breaking new ground here. We are trying to be more consistent in the application of laws.

I would like to comment on that section to Mr. Pease. You say in H.R. 3 on page 20, on line 16, "denies internationally recognized workers rights which include" and you go on to identify certain of those rights.

Well, last weekend, I met with the director general of the International Labor Organization, and he told me about the conventions that have been incorporated now as standard international worker rights.

I would prefer that we not identify the rights as you have in the bill, but instead rely on ILO standards which are very consistent with what you recommend.

The reason I suggest this is that we shouldn't be in a position of defending this provision against the charge that we are imposing U.S. standards or labor rights on other countries.

Let's subscribe to internationally recognized worker rights. I might add that all of the European countries, Mexico, and almost all industrialized nations, now recognize these rights.

So, let's put this at the top of our agenda, make it consistent with international recognition of rights, as well as U.S. law.

I think if we do that, we can have a trade bill that is going to be effective and that cannot be labelled nonprotectionist—a bill that relies on competitiveness to bring down that trade deficit and restore America's position in the global economy.

Thank you, Mr. Chairman.

[The statement of Hon. Don Bonker follows:]

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STATEMENT

The Honorable Don Bonker

Chairman, House Foreign Affairs Subcommittee
on International Economic Policy and Trade

Chairman, House Democratic Trade Task Force

Mr. Chairman and members of the Committee, I want to thank you for giving me this opportunity to testify on what I think is the most vexing and critical question facing the Congress -- how to redress America's enormous trade imbalance and restore America's competitiveness in the global marketplace.

There is no question that our nation faces a trade crisis of staggering proportions. Our trade deficit has set new records for each of the last three years -- \$123 billion in 1984, \$148.5 billion in 1985, \$170 billion in 1986.

Behind the trade deficit statistics are tragic human and economic costs. Last year's trade deficit represents a loss of over 4 million jobs and the steady erosion of America's industrial base.

In certain ways, the United States' trade situation resembles a successful football team which has begun to rest on its laurels. America grew accustomed to being the dominant economic power in the post-War era. Our firms did not aggressively pursue international markets, and government adopted an adversarial posture toward business. U.S. economic programs rebuilt Europe and Asia, and our foreign aid has helped many Third World nations to develop. While other nations have vigorously pursued international trade, we have watched our overseas markets disappear and our domestic economy wither. Any comprehensive trade package must address this problem, and rebuild America's competitive edge.

It is not fair, however, to blame our entire trade crisis on declining U.S. competitiveness. Today's game of international trade is not being played on a level playing field. Other nations employ a wide variety of import restrictions, export subsidies, predatory financing, industrial targeting, and other practices to distort global trade and enhance their domestic economies at our expense. Any comprehensive trade package must also take steps to eliminate unfair trade practices and open up foreign markets to U.S. products.

PERSPECTIVES ON THE TRADE PROBLEM

Mr. Chairman, I come before you wearing a number of hats. As Chairman of the House Democratic Trade Task Force, I worked with 20 other House members to develop detailed legislative recommendations which formed the basis for H.R. 4800 last year. The Task Force recommendations were widely acclaimed as a comprehensive, non-protectionist approach to the trade problem.

As Chairman of the Foreign Affairs Subcommittee on International Economic Policy and Trade, I drafted the provisions of last year's trade bill dealing with export promotion, export controls, export trading companies, mixed credits, and reform of the Foreign Corrupt Practices Act. Each of these provisions represents a positive way to make American exporters more competitive and bring down the trade deficit.

I also come before you as someone who represents the region of the nation most heavily dependent upon two-way trade -- imports and exports -- for its economic health. I can tell you that any trade bill which we enact must be consistent with our international obligations, or it will trigger retaliatory action against U.S. exports and U.S. workers.

In 1985, \$22.5 billion in trade moved through the Port of Seattle, \$18 billion in imports and \$4.5 billion in exports. A recent study found that international trade supported 80,000 direct and indirect jobs in the Seattle area alone. Many of these jobs would be lost if the United States erected protectionist barriers to our market. In addition, retaliation by other nations would cripple many of our strongest export sectors, such as agriculture and high technology.

I do not mean to suggest that America should stand idly by in the face of unfair foreign trade practices or a mounting trade deficit. Support for the international trading system does not mean that we have to be a punching bag for other nations, but we must understand the consequences of our actions and seek out responsible and constructive ways to address our trade deficit.

COMPETITIVENESS

Over the past two or three months, the trade debate has shifted away from import restrictions, to the improvement of U.S. competitiveness. This reflects a growing awareness that unfair foreign trade practices account for no more than 10 percent of our trade deficit.

While there is widespread agreement that America has lost her competitive edge, there is no agreement about what this actually means, how it has happened, and what to do about it.

As we develop and refine the trade bill, we must define exactly what we mean by "competitiveness." In my view, competitiveness legislation should have a number of positive results:

- o a better educated, more productive workforce;
- o tax incentives and other efforts to promote research and innovation;
- o improved U.S. government export promotion, financing, and information programs;
- o elimination of government policies that unnecessarily restrict U.S. businesses;
- o incentives for U.S. businesses and U.S. workers to become more adaptable to rapidly-changing economic forces or market preferences.

For Members wrestling with the competitiveness question, I have one message -- look no further than last year's House trade bill. After an exhaustive process involving at least six House committees, the bill included major provisions on education, training, business-government cooperation, export promotion, export financing, and removing government impediments to U.S. exporters.

As you know, Mr. Chairman, last year's trade bill has been reintroduced in the 100th Congress as H.R. 3, the Trade and International Economic Policy Act of 1987. Speaker Jim Wright has set an ambitious legislative timetable, which calls for the various committees to complete their sections of the bill by April 11, and for floor consideration by the week of April 20.

While H.R. 3 represents a good start, I think we can do even better this year.

In last year's bill, the Title drafted by the Foreign Affairs Committee, included a number of provisions to beef up U.S. export promotion, eliminate unnecessary restrictions on technology exports, and other steps to improve U.S. exporters ability to compete in overseas markets.

Specifically, Title III of H.R. 4800 would have: strengthened the U.S. and Foreign Commercial Service, the Overseas Private Investment Corporation, the Trade and Development Program, and other federal export promotion programs; eliminated export controls on non-sensitive goods and focused export enforcement on truly critical technologies. The Committee also developed provisions to create a more effective mixed credit program to counter unfair export financing by Japan, France, and other nations. Working with the Energy and Commerce Committee, we drafted provisions to clarify and strengthen the Foreign Corrupt Practices Act. The Committee also developed legislative language to increase the effectiveness of Export Trading Companies.

This year, the Foreign Affairs Committee intends to go even further in strengthening U.S. export promotion programs and eliminating government impediments. As a nation, we still lag far behind our competitors in the support we provide to the overseas marketing efforts of our firms.

I would anticipate that other committees will also look at additions, modifications, and improvements to the titles under their jurisdiction. The Education and Labor Committee will no doubt consider additional steps to improve U.S. competitiveness through worker training and specialized education programs in math, science, engineering, and foreign language.

The Banking Committee will likely continue its efforts to find policies to address the instability in world currency markets and the ominous international debt problem.

And I would respectfully urge you and your colleagues on the full Ways and Means Committee to reassess the trade remedy provisions in last year's bill, to develop the most effective and responsible tools for eliminating other nations' trade-distorting practices.

In closing, Mr. Chairman, I strongly believe swift action is necessary to restore America's competitiveness and address our costly trade deficit. I am hopeful that the growing emphasis on competitiveness will help to guide Congress, the Administration, and the American public toward consensus legislation that is responsible, tough, and effective.

I want to thank you again for this opportunity to testify.

Mr. GIBBONS [presiding]. Mr. Duncan.

Mr. DUNCAN. No questions.

Mr. GIBBONS. Mr. Pease.

Mr. PEASE. Mr. Chairman, thank you.

Thank you, Don, for your testimony.

I really think that Don Bonker is one of the important resources in the Congress on the trade issue. Consistently, both in his own committee and in the broader arena, Don has been a thoughtful initiator of legislation in the trade area. I think we would be the poorer in Congress without you.

Your testimony this morning has convinced me more than ever of the truth of that statement. I appreciate your testimony, first of all.

I will be happy to work with you regarding possible modifications of the definition of internationally recognized labor rights.

Frankly, the ILO conventions are, in many cases—do in many cases go beyond what language is in this bill. So, from some points of view, I would be delighted to accept the ILO conventions as the basis for our own law.

You said most of the European nations have already adopted those conventions. Unfortunately, in many cases the United States has not. That puts us in somewhat of an anomalous situation.

The language we adopted last year in H.R. 4800, as far as I am concerned, is not written in stone. We ought to review that language as we do all parts of H.R. 4800. As I say, I would be glad to consult with you.

The jurisdiction of your own committee, subcommittee, lies largely with the export administration notion of exports. You have been serving as chairman of the export caucus. I will be introducing, unveiling legislation this coming Monday containing my ideas for improving and strengthening H.R. 4800, or now H.R. 3.

Part of that bill relates to export promotion strengthening the foreign commercial services, and I would like the opportunity to sit down with you, go over those ideas. Perhaps you will find them of merit when you mark up your own section of the bill.

Aside from that, I have no specific questions.

Again, I appreciate your testimony this morning and, much more broadly, all the very, very good work you do in the trade area.

Mr. BONKER. Thank you, Mr. Pease.

Mr. GIBBONS. Mr. Chandler.

Mr. CHANDLER. Thank you, Mr. Chairman.

At the risk of generating some letters from the Republican central committee at home, I would like to echo the remarks of my colleague, Mr. Pease, and compliment my colleague from the State of Washington for his work in this trade area.

As he mentioned in his testimony, he and Mr. Frenzel and I and some other Members of Congress did visit the Philippines, Indonesia, and India, not just to take a congressional delegation on a fact-finding trip, but actually to lead the way for 22 private businesses, most of whom represented the telecommunication industry.

It placed Members of Congress in the unusual role of being peddlers, but I can tell you that we were pretty good at it.

In fact, I think there is evidence that due to Congressman Bonker's leadership and that of Mr. Frenzel, with some credit to all of

us involved, we were able to open doors for those telecommunications industry executives that simply would not have been open had we not conducted that trip.

I actually saw people exchanging business cards with promises to follow up on opportunities to bid on jobs and so forth, particularly in India.

So, again, my compliments to my colleague from the State of Washington for his leadership in this effort.

Looking at section 135 of the bill—and you mentioned it briefly in your comments about the resource subsidy provision—we have had, of course, as you know, some progress with the Canadians, some agreements where timber is concerned.

Do you feel now that that makes this resource subsidy provision a moot point or does that exist elsewhere, and do we still need to address that in the legislation?

Mr. BONKER. Thank you, Mr. Chandler, for your very kind remarks. That was a very successful trip that we took.

I believe that we still need a definitional standard of what constitutes a resource subsidy. As you recall, there was no explicit language in the legislation that dealt with lumber or Canada, specifically. It is a generic problem.

Carbon black is another example. What has happened in the last 4 or 5 years is that the Department of Commerce has reversed its rulings on both the Canadian lumber and the Mexican carbon black issues. We shouldn't allow the standards to float with the whims of whoever is in office downtown.

So, that everybody really understands our law and so that we have consistency in the application of those laws, I do think that we need a resource subsidy definition.

I do think whatever definitional standard we arrive at ought to be consistent with the GATT. I would strongly resist any legislation that is contrary to GATT. I think that is our only hope for maintaining some semblance of international trading.

So, we need GATT as kind of a referee. If I felt that the resource subsidy provision in this bill were contrary to GATT, I just could not support it.

I will add I am glad—and I applaud—the Reagan administration and the Canadian negotiators for resolving the very difficult and vexing lumber issue. Hopefully, removal of that log jam will make possible a free trade agreement between our two countries.

Mr. CHANDLER. Mr. Chairman, if I may ask one additional question.

I would like to underline a point you made, because it was one I think all the delegates on the trip came home with. And it is this: A point was made by the people with whom we met, that they were finding the products of other countries—other than the United States—more attractive, more because of financing than anything else. Concessionary financing, especially from the Japanese and the French who you get the impression they would almost give it away to get people to take it—but others, as well, was what most interested the countries we visited.

I also got the impression that the United States manufacturers were there with products they considered at the very least competitive, if not superior in quality and price to the foreign competition,

but that, again, financing became the determinant of what was purchased, and it had nothing to do with productivity, quality of workmanship, or anything else.

Caterpillar was as good as Kiboda. It is just financing made purchase from the United States much less likely.

Mr. BONKER. Mr. Chandler, that is very perceptive. Committee members should appreciate what is going on in the world economy in terms of big ticket items like hydrodams, where Bechtel becomes involved, or aircraft like Boeing and McDonnell Douglas, or telecommunications.

The countries we visited were looking at new telecommunications systems totalling \$3 billion or more. You can have the best product around and the best price, but if your government doesn't offer some kind of attractive financial package, you lose the deal.

Congress established in law in 1983 a mixed credit program. This program was designed to counter widespread foreign predatory financing by allowing our government to tie some of our foreign aid to loans from the Eximbank to make possible an effective lending rate of maybe 3.5 percent versus a commercial rate of 7 percent or more.

Unfortunately, the Reagan administration ignored this authority and the resources at its disposal for several years. Shortly before the trip they announced a \$100 million credit line for Indonesia, which could make a big difference in our commercial opportunities if the terms are competitive with those offered by other nations.

We have about \$3.5 billion in Economic Support Fund foreign aid, much of which goes as cash support to countries. We are real purists. We don't tie that aid to any kind of commercial opportunity. We are losing out.

The President ought to use the 1983 authority to set aside some of the Economic Support Fund to the countries that have already been earmarked by the Congress and say we are going to tie some of that money to some Exim low interest loans to make it possible for our major exporters to compete. That is part of establishing level playing field.

Chairman ROSTENKOWSKI. Mr. Gibbons.

Mr. GIBBONS. I will be brief.

First, I want to commend you for your excellent statement, here, Don, and for your long leadership in the Export Task Force as well as your very perceptive knowledge of our trade problems.

You are a big help to your nation. In that last dialog between you and Mr. Chandler, I think what we need, rather than meeting fire with fire—because it seems to me it is kind of silly to prefer foreign consumers over domestic consumers—why in the world should the governments get involved in subsidizing domestic consumption through better trade?

Why don't we enforce our ant subsidy statutes so that that kind of thing doesn't injure us? I would think we can take our ant subsidy statutes and make better sense out of them. Perhaps where subsidies are used in third markets we could retaliate against people in this market where they take our market rather than trying to match dollar for dollar all the crazy subsidies somebody is willing to put forward.

For the life of me, I do not see where there is any sense in taking a foreigner and subsidizing him over an American consumer. I don't think we ought to be subsidizing the foreign consumer. I think there ought to be a level playing field out there.

Would you expound on that?

Mr. BONKER. Sam, we have taken this case to the OECD, the Carter administration, the Reagan administration, and put a lot of pressure on the French, Japanese, and others to put an end to this mixed credits practice. We did have a gentleman's agreement limiting such credits for aircraft subsidies. We found out now the Europeans are violating that agreement, undercutting some of our major aircraft suppliers. This is an issue that will be as explosive as the recent problem involving Spain and Portugal.

Sam, the question is, if we press them and press them and even reach a negotiated settlement, but they continue to engage in this practice, what do we do then?

Mr. GIBBONS. They have a surplus of trade with us of about \$27 billion right now. There is no sense getting down in the gutter with them on the subsidy thing and subsidizing consumptions of Airbuses or even the consumption of our airplanes.

We ought to say, "If you want some of that \$27 billion trade surplus you are running with us, you better cut out the subsidies or we will lower the boom on you."

Mr. BONKER. I fear you will be called a protectionist if you do that.

Mr. GIBBONS. I have been called that a lot of times. That is not true. There is no sense. I just see no sense at all in this subsidy game of trying to match chip for chip, because all we do is dig a deeper hole for ourselves.

Chairman ROSTENKOWSKI. Mr. Flipppo.

Mr. FLIPPO. Thank you, Mr. Chairman.

I did have one question. I appreciate the leadership and the testimony that the gentleman has given us today.

Do you believe that the enforcement arm of the GATT at the present time is sufficient to address the solutions for the matters before it?

Mr. BONKER. Mr. Flipppo, I believe that the enforcement arm of GATT is not effective. Perhaps GATT needs an army to enforce its rulings. I don't know.

That is one area where our negotiators need to advance some reforms, because unless there is effective enforcement, a lot of countries will simply ignore GATT rulings.

Mr. FLIPPO. I just wanted to share the gentleman's opinion, if I understood his testimony correctly. He said we needed a definition of a subsidy. Perhaps we need a definition of a protectionism, as well, whether it pertained to any kind of product.

Mr. BONKER. You know, may I comment on that just for a minute?

We do need a definition of protectionism, so we know what we are talking about. I get the impression from the Reagan administration—and I am not just being partisan, I would say it of a democratic administration—if this committee were to put a Band-Aid on the International Trade Commission, the Reagan administration would call it protectionist. If the President calls it protectionist, ev-

everybody does. Then the Japanese, the Koreans, everybody says that is protectionist.

We need to know where the line between responsible action and protectionism is. We can go up to that line in order to be tougher with our trade laws, but if we go over that line, we ought to know that.

If we continue to argue over whether a given policy is protectionist or not protectionist, then we confuse the debate rather than advance the debate on international trade.

We do have some definitions. GATT has a definition. The USTR has a definition. But we really need to reach an agreement on what constitutes protectionism, then pull it out from time to time and read it so we are all talking about the same thing.

Mr. FLIPPO. I appreciate the gentleman's testimony.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Donnelly.

Mr. DONNELLY. No questions, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Crane.

Mr. CRANE. I just want to congratulate our colleague for his efforts and labors in addressing our trade imbalance.

I have no questions. I just appreciate your being here, Don.

Chairman ROSTENKOWSKI. Mr. Moody.

Mr. MOODY. Thank you, Mr. Chairman.

Let me also congratulate our colleague for his excellent statement and leadership.

I am particularly struck by several things you said about the rhetoric from the White House about protectionism. I went to Korea to give a talk on the trade bill that passed in the House but not in the Senate. I felt the fine print in that bill indicated that it wasn't really protectionist. When I arrived, everybody at the conference was convinced it was protectionist, hostile, aimed at them because of the White House rhetoric. If we could somehow get our definitions in order, perhaps that would be helpful.

Certainly it has stirred up a lot of unnecessary hostility with that internecine battle on terminology.

The second point I would like to make is on funding. I think you put your finger on an important point in the funding subsidies.

Isn't it also true the Federal budget deficit has driven interest rates up in American necessarily higher in order to pull in foreign capital which has meant our interest rates have led other nations?

Even without a funding subsidy, financing subsidy, you find interest rates typically one, two, sometimes three points lower in many countries, capital surplus countries around the world, Japan, Europe.

The Eurodollar is usually lent at two points less than New York dollars. That seems to be another side of the budget deficit which leads to what may appear to be concessionary and subsidized financing, but may actually be more a matter of budget deficit than a subsidy.

Do you have any comment?

Mr. BONKER. All I can say, Mr. Moody, is, "amen."

The budget deficit is a major factor in our trade deficit and in our loss of competitiveness. No question about it. The cost of capital undermines much of our competitive effort abroad.

Mr. MOODY. Finally, I notice in your statement you say that unfair trade practices probably account for no more than 10 percent of the budget deficit.

You go on to talk about competitiveness, obviously, as another part of it. I have also heard other people describe the Federal budget deficit as 90 percent of the Federal trade deficit, which leaves zero for competitiveness.

Mr. BONKER. I think that is rather exaggerated. You are talking about economists who float around figures and percentages.

Generally speaking, at least through 1986, the economists agreed that the macroeconomic problems accounted for about 70 to 75 percent of our trade deficit.

I mean, by "macroeconomic," both the overvalued dollar, which was a principal cause, the growth differentials between the United States and her trading partners, which accounted for maybe another 10 or 15 percent, and the LDC debt, which caused a sharp reversal in trade flow between Latin America and the United States.

When you add them up, it comes to 70 or 75 percent. However, for 2 years now, the dollar has been in a steady descent. We have not seen a corresponding improvement in our trade deficit. We know about the J curve, the lag, and so on and so forth.

I think we should not be simplistic about this trade deficit and say, "well, it is the budget deficit—that is the problem." Or, "it is, unfair trade practices—that is the problem." Or even "we have lost our competitiveness." I think it is a very complex thing. We are not going to put a Band-Aid on one thing and expect it to turn around.

The Reagan administration and various economists said if we can just lower the value of the dollar, we could turn this thing around.

It is not going to happen. Other countries are not going to give up their market shares in the United States that easily. We need to confront this problem in a sophisticated way, and look at all aspects of it.

You are right—the budget deficit may have been the principal cause, but we have a lot of work to do if we are going to bring down that trade deficit and restore America's competitiveness.

Mr. MOODY. Thank you.

Chairman ROSTENKOWSKI. Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman.

First, I want to thank Chairman Bonker for introducing me to the pleasure domes of Bandung, Indonesia.

Thereafter, I want to thank him for the splendid work he and his committee are doing on trade and for his leadership on the House Export Caucus.

Don, you have a lot of opportunities that we don't have on this committee. Your committee, of all the ones in the House, is the one that focuses on building exports. Much of what we do here tends to be restrictive. We envy you your jurisdiction and we're proud of the way you are carrying it out.

You have a good statement here. Some of the things you do, particularly the Export Administration Act, are terribly important. I note the Academy of Science's report in which there were strong

recommendations that rather than DOD, the Department of Commerce should control, with DOD input.

I assume this is going to be a part of the recommendations of your subcommittee with respect to its title of H.R. 3; is that correct?

Mr. BONKER. Thank you, Mr. Frenzel, for your comments. I want to commend your active efforts on the export side of this issue. It is certainly a more positive way to deal with the problem.

Our committee conducted a hearing on Tuesday afternoon and heard testimony from Lew Allen and the other members of the National Academy of Sciences panel. Interestingly, the NAS panel was made up of a number of former high ranking officials in the Department of Defense, so no one could accuse it of being a business group trying to tear down our export controls at the expense of our national security.

The NAS panel has made an important contribution to this debate, one that is very timely indeed. I think this is the year we are going to have a major breakthrough on our export control program.

As you know, many of the problems have been internal, not in the law. I think the law is sufficient. If the administration would follow the law and the intent of Congress, there would be little need for Congress to act.

The question occurs when certain agencies within the executive branch ignore the law or attempt to circumvent it and really compound the problems our exporters have in obtaining licenses to ship their technology. The Reagan administration, I notice in today's Washington Post, has advanced to the Congress a number of proposals to reform U.S. export controls and hopefully they will make some internal changes as well.

I am very optimistic after struggling with this issue for 5 years that we are going to see in 1987 an export control program that will protect our national security interests but allow U.S. exporters to get out there and compete with everyone else.

Your consistent help in this area has been very much appreciated by the high tech industries and others who are concerned about this matter.

Mr. FRENZEL. More power to you.

You made a recommendation about Exim with which I concur. Until we can include export financing in the GATT, it seems to me that we have to be competitive. I believe you also mentioned improvement—Congressman Pease mentioned improvement—in the Foreign Commercial Service.

I suppose your recommendations about export licensing would also include some improvements in ITA and that licensing division. It has been my experience that a lot of our problems with the trade deficit are self-induced. I hope you are moving in that direction and that we can support you.

Mr. BONKER. Thank you, Mr. Frenzel.

We will be working closely with you and Mr. Gibbons. And now Mr. Chandler has a real stake in this effort to improve the export side of the trade issue.

Mr. FRENZEL. In the President's budget, there is a recommendation for a user charge on export licenses. Not only is a user charge

recommended, but it is to be commensurate with the Government expense incurred. That is, if you apply for an export license and you are jerked around by DOD for a year-and-a-half, the meter is running the whole time and the more you are harassed, the more you will pay for your license.

Apparently, the administration thinks we have too many exports and, therefore, feels they should be taxed. Is your committee going to take a look at that?

Mr. BONKER. For about 30 seconds, Mr. Frenzel.

Mr. FRENZEL. Thank you very much. I yield the balance of my time.

Chairman ROSTENKOWSKI. Mr. Pickle.

Mr. PICKLE. I want to thank you. I want to express my appreciation for the leadership you have given in this field, particularly in your efforts this last session to reduce controls on high tech exports.

We have got too many items on this controlled-products list and it takes too long to get a license. I want to mention one matter to you, but it is an individual matter.

We want to come before your committee later. There is a real problem of foreign policy controls on products which are counterfeited and then sold in the U.S. market. Terrible injustices are being made.

I have asked that a constituent of mine appear before your committee. I hope we can concentrate on reducing some of those controls. Mr. Frenzel said it is a terribly long process.

You stated, you have been told and asked by the leadership to get your committee report ready by April 11. Are you having difficulty doing that?

Mr. BONKER. Not if we drop everything else we are doing.

Chairman ROSTENKOWSKI. Are you going to drop everything else you are doing?

Mr. BONKER. And if we have a consensus on all aspects of the legislation.

Mr. PICKLE. Is that a realistic date? You said it is achievable.

Mr. BONKER. Mr. Pickle, let me say it this way, and this is for the benefit of Chairman Rostenkowski, as well. I think the advantage we have this year is that we have already completed work on a major trade bill. We did so last year. Not since the energy crisis in the late seventies has Congress or the House acted so comprehensively on a piece of legislation involving so many different jurisdictions.

It was an extraordinary achievement. We also instituted controls to prevent protectionist actions along the way. That was only—what?—6 or 7 months ago? Last May?

So the bill is still current. We are going to start with what we had last time, because we thought it was pretty good. I think the product of the Ways and Means Committee was pretty good. There is no need to take it all apart and do it all over again.

We are going to have to fine-tune some things, add a few things, modify a few things. Maybe the Gephardt amendment is just too controversial. I am sorry it has so distracted the debate on the issue. In many ways, I would just as soon the Gephardt amendment

not be in the bill because of the unwarranted controversy it has generated.

Nonetheless, much of the basic work in H.R. 3 has already been done by the principal committees. What we need to do is conduct hearings, fine-tune certain provisions, and get the bill back on the floor.

We also might signal the Senate as to the overall direction that we are taking. You know, the Senate has looked only at the remedy provisions. They haven't looked at export promotion, export controls, increasing education and all those other things. So if we go to conference under the current situation, we will be sitting there with a 400 page bill and they will have about three pages. That is going to be an interesting conference.

So I think we ought to put the Senate on notice that we are going to take the lead on this issue and have a comprehensive bill.

If we start doing the whole thing all over again, I think we are going to put weight on the process and that won't do any justice to a good bill.

Mr. PICKLE. Are you saying that we don't need to start all over again since we already have a bill although it wasn't passed. It is still warm. We ought to be able to move rather quickly.

So I assume you are saying that we can hit that April 11 deadline if all the committees work together appropriately.

Mr. BONKER. I have a lot of confidence in Chairman Rostenkowski's leadership, Mr. Pickle.

Mr. PICKLE. I am afraid not to agree with you on that.

All the committees have got a difficult task but I believe it is as you said. We do have a basic bill. There are only one or two areas where further action would be controversial.

We ought to be able to meet these targets.

Thank you very much.

Chairman ROSTENKOWSKI. Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

I, too, would like to congratulate our colleague on the work he has done in the field of trade, international trade and export.

Don, it seems to me the discussion you had with Sam Gibbons, to which Bill Frenzel alluded, typifies part of the problem. We all want the same goal, but we really have not defined how we are going to get there.

That is what concerns me. You referred to it when you said that we have not taken into consideration all the aspects of foreign trade, international trade. So my question to you is where do you think we should be going in trade policy?

I have been at odds with the current administration, the previous administration, and the administration before that because we have not had a definitive long-range-trade policy. So it seems to me it is up to us to sit down and work for a long-range-trade policy.

What we are doing is putting Band-Aids on immediate problems. We have to decide where we are going to go and how we can respond to problems such as export financing, which is one tiny part.

But if we cure that problem, man's mind is so ingenious that another barrier, hidden, obvious, surreptitious, will spring up.

So when I try to project into the future, it seems to me we are going to have to concentrate more power in a single entity. It does

not appear right now that we are going to have a department of trade. So we are going to have to strengthen either the USTR or somehow get to the point where someone can make a nonsequiturial responsive decision to cure these problems on an immediate basis.

I would just like to have your thinking on long-range trade policy? Where do you think we should be going? How should we start building now to achieve that goal?

Mr. BONKER. Mr. Schulze, that is an important question. I could talk at length on it, but I won't.

I think trade reorganization is a vital factor in our competitive position. As Mr. Frenzel, Mr. Chandler and I traveled around to these other countries last month, we found that they all had a department of trade, sometimes a department of trade and industry. But it was all housed in one department.

When we lead these trade delegations, we involve the Department of Agriculture sometimes, the trade and development program, the Department of State, the Department of Commerce, the USTR.

Trade jurisdiction is all over the map, but I don't think realistically you can ever get a standing administration to put forth a major reorganization. It has to be an incoming President who has a fresh mandate and a vision and no turfs to protect. Right now you have all those turfs down there.

I would have to commend the Reagan administration. Mac Baldrige and Clayton Yeutter get along very well. That is why we were so successful at Punta del Este.

If somebody were to ask you, Mr. Schulze, who really speaks for trade in the Reagan administration, you would have to say if it is agricultural policy, maybe it is Lyng, if you are talking about trade disputes, maybe is Clayton Yeutter, but then Baldrige gets into that a little bit; if you are talking about macro policy, then Jim Baker does that.

It is confusing to a lot of people.

Chairman ROSTENKOWSKI. Let me ask you—and I will give the gentleman more time—isn't that our problem?

We have spread ourselves so thin with respect to decisions that have to be made by the administration, don't we really need one central area in trade that can be—can reflect what the country stands for as opposed to one increment or another increment?

I don't know why Presidents are so shy of making his emissary a strong partner in the trading area. I think you get these jealousies over jurisdiction and everything slows down.

Mr. BONKER. Thank God we don't have that in the House, Mr. Chairman.

Chairman ROSTENKOWSKI. We have that in the House, too. That is a problem. I will fight for mine as hard as anybody else. But I am certainly willing to sit and negotiate in order to come up with a product. I didn't mean to interrupt.

Mr. BONKER. Mr. Chairman—

Mr. SCHULZE. In fact, I agree. As you know, several years ago I introduced a bill which would take all of those powers to regulate international trade that we have given over the years to Agriculture, State, Defense, and bring them all back to Congress where

they constitutionally reside. I didn't really want to do that, but I wanted to send a message that here is where the power really should reside.

We have such a diversified system that we are relatively impotent. That is why we have to look at long-range trade policy and sit down and say where we are going to be at the turn of the century and how we are going to get there. Who will have the ability to respond, for example.

That is a trigger. I stopped using the term "reciprocity." I started to use "symmetrical access." I would like someone with the ability to create some symmetrical access where we have absolute bars, absolute blockages, tariff or nontariff barriers, someone with the power to say that is fine, if you want to do that, but over here in a nonsectorial basis, we are going to respond in this fashion.

I would hope that some day maybe with the joint jurisdiction of committees, that we can sit down and work on long range trade policy. I am afraid it is a problem both within Congress and within the administration because of turf. We are selling the country short if we allow this to continue. We have to some day sit down and channel this in one direction. I do have one more question.

Mr. BONKER. One very quick response.

I couldn't agree more. Two years ago, I introduced legislation designed to produce a major executive branch reorganization to set up a single trade agency. To my dismay, it was referred to eight different standing committees.

I have to be honest with you—forgive me, Mr. Chairman—but when you are talking about turf and jurisdiction in the administration, you are also talking about turf and jurisdiction up here. The various House and Senate committees have jurisdiction over certain agencies, and each committee wants its agency to have a piece of the trade action. It can be a fierce struggle.

Mr. SCHULZE. Don, I would like to get your view on "reciprocity" or symmetrical access. I think symmetrical access flows a little bit better. That is why I use it.

Somehow we have to have the ability to achieve this type of access without starting trade wars. Somebody will say if you wish to erect this barrier, if you wish to have this type of operation, or this type of a test, or this type of a standard, or not allow our services in, or not allow our banks to function or our insurance companies or lawyers or anything else, we are going to take this action to balance or create symmetry in access.

I would like to have your thoughts on it. If you think we need something like that, how do we get there?

Mr. BONKER. Mr. Schulze, if I could answer that, I would be the House genius because that is the heart of the issue. How do we force in Korea, Japan, Taiwan, and other countries to open their markets? I think that is what Gephardt attempted to do—create a formula that would identify certain countries who persist in unfair and discriminatory trade practices, make these nations subject to negotiations first, and then if negotiations fail, the President can draw upon a number of options. Mr. Schulze, that is a pretty mild provision when you consider that the President could waive it totally. Unfortunately, that one provision in the act was widely criticized as being blatantly protectionist.

The problem is the way the debate is now structured, if you will. If we intend to do anything to pry open another market, we are going to be accused of protectionism.

Most of the competitiveness issues offer primarily long-term solutions. We have a short-term crisis. That is going to be the big challenge before Chairman Rostenkowski's committee and Mr. Gibbons' subcommittee which has done a lot of work in this area.

If we don't deal with the issue by way of the Gephardt amendment, who has the idea?

Mr. SCHULZE. Keep in mind bilaterals. I know everybody is tired of hearing me talk about them, but it seems to me with GATT at this point controlling less than 5 percent of international trade, if they don't get off the dime or if these new nations are not successful, we will need a new structure for international trading order.

It seems to me that we start that through the bilateral process and that will be the answer.

Chairman ROSTENKOWSKI. Mr. Guarini.

Mr. GUARINI. I want to thank you for your frank and very provocative comments. You certainly deserve all the accolades given to you from this committee today.

You have been in the vanguard of a complicated and sophisticated subject matter, one in which I am glad there is a new environment. I just wish we could take a moratorium on the word "protectionism" and find some other words for it because it does cloud our thinking. When people use it, our allies come running using it behind us and it doesn't serve any good function.

The word "industrial policy" was a taboo last year, so we used another enhancing word calling it competitiveness now which might be another term for industrial policy, but we get caught up in semantics.

I would very much agree with you and Dick Schulze that we should have a long-term direction. The one you were discussing, the idea of the fragmentation of our trade thrust and the talk about a trade czar possibly to pinpoint the responsibility on a single person or department is interesting.

It came to mind we already have the Department of Commerce involved, the Department of Agriculture, the Department of Treasury, the Department of State, the Department of Defense, USTR, the ITC. It is no wonder we have no direction.

The Japanese have MITI. We have a many-pronged thrust in trade and it is overlapping and duplication. As a result, we probably well deserve to be in the mess that we are in. Unfortunately, we are a crisis nation. When public opinion gets aroused and the situation almost gets out of hand, then we do do something effectively about it and hopefully we have reached that stage now that we can really talk in terms of long term policy developing and strategy, if that would be a better word for it.

You and I toured Europe last year and we spoke with some of our allies and top business people and government officials. What came up a great deal was export controls. There is a lot of ill feeling in the business community and in government about how we conducted ourselves in this regard.

You have taken the leadership role in export controls. We know that we have lost \$8 or \$9 billion last year in trade alone by the delay of granting sufficient licenses.

We believe that double that amount—we probably lost because people just don't even bother looking for those markets because of the delays that take place and then our business people are knocked out of their opportunity of getting certain kinds of business agreements and contracts.

I would like to ask you what you have in mind if you could let us know now as to the direction that your thinking is in in the bill that you are putting together for export controls. Incidentally, I might say I understand there are some very key people that may be leaving government very soon that stood in the way of our having a decent export control licensing operation. That might be a step in the right direction. Without naming names.

Mr. BONKER. OK. You brought it up, Mr. Guarini. The greatest export control reform of all is the impending departure of one Assistant Secretary of Defense.

Mr. GUARINI. I concur.

Mr. BONKER. We are going to begin with what we had in last year's bill under title III. With the change of committee chairmen in the Senate, which had previously forced us into a 3-year conference on the Export Administration Act, I think we are going to see some breakthrough. And I want to say that we are not going to add more agency involvement. We are going to try to lift some of the existing burdens from the process.

Mr. GUARINI. We have got Commerce—three departments in that alone.

Mr. BONKER. Mr. Guarini, we have 6 or 7 departments. We have Commerce, Defense, State, which are recognized by law; but now we have the National Security Council, Office of Management and Budget, even the Customs Service in the process.

Some time ago, the National Security Council issued a memo authorizing DOD to get into review of applications on shipments to free world destinations. We thought we had won that battle in the Export Administration Act, but we lost it downtown by way of one memo. So we hope to clean up that part of it.

But you have seen those struggles. It is going to be a long process.

Mr. GUARINI. But we are coming out with specific ideas beyond what was in H.R. 4800 last year.

Mr. BONKER. Most probably, yes.

Mr. GUARINI. Thank you very much. Thank you for your good work.

Chairman ROSTENKOWSKI. Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman.

I want to commend the gentleman from Washington for his fine comments and, I thought, very thoughtful approach to the problem. As I listened to your remarks earlier, it seemed to me you had expressed some concern about us trying to decide the details of other countries' labor laws and working condition provisions. But you indicated some willingness to see us address that issue in a trade bill.

I wonder if you would be willing to expand on your thoughts here as to what you consider acceptable and what you might consider ill-advised in that area?

Mr. BONKER. Thank you, Mr. Brown.

I think the Pease approach is acceptable, and I think if people looked at the language and the intent and squared it with what is in existing U.S. law and with this administration's actions, that they would find it very consistent.

The administration just took action under GSP a few weeks ago against Paraguay, Romania, and Nicaragua for their abuse of worker rights.

The administration has also raised international labor standards at GATT. So we shouldn't single out this provision and say "wow, there go the Democrats again, trying to force American working standards on the Koreans," and so forth.

Mr. Pease has very thoughtful language in the bill, language very consistent with what Congress has already done and what the administration is now doing.

Mr. BROWN. I might say to the gentleman, I think there is a solid basis to believe that you are going to have strong bipartisan support for an extremely strong trade bill based on reciprocal trade provisions, based on fair trade. My guess is, if we use these kind of things to make it a protectionist bill, that you will see the ability to pass a bill of that kind evaporate.

I want to commend the gentleman for his thoughtful approach in that area.

I yield back.

Chairman ROSTENKOWSKI. Thank you very much, Don. I appreciate the time you have spent with us. It has certainly been rewarding. Thank you.

Mr. BONKER. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Kirkland, welcome to the committee. It is always a pleasure to have you testify before us and share your opinions with us. We are looking forward to a healthy exchange.

With that, I will ask you to proceed.

STATEMENT OF LANE KIRKLAND, PRESIDENT, AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY ROBERT McGLOTTEN, LEGISLATIVE DIRECTOR, AND RUDY OSWALD, RESEARCH DIRECTOR

Mr. KIRKLAND. Thank you, Mr. Chairman.

My name is Lane Kirkland. I am president of the AFL-CIO. With me today are Bob McGlotten, director of legislation, legislative department, and Rudy Oswald, chief economist, who I may call on to assist me in answering any questions beyond my capacities.

Mr. Chairman, members of the committee, I appreciate this opportunity to discuss the views of the AFL-CIO on trade policy. In the last session of Congress, the Members of this committee and of the entire House demonstrated and acted on their concern for the victims of unfair trade. The workers we represent are grateful for that and for your desire to act quickly on the issue in the 100th Congress.

In the interest of time today, with the permission of the Chair I will read a brief statement, having submitted more detailed written testimony.

Chairman ROSTENKOWSKI. Your entire statement, Mr. Kirkland, will be entered into the record. If you would care to summarize, feel free to do so.

Mr. KIRKLAND. Thank you.

In the last 3 years, America's deteriorating trade situation has come to dominate the headlines and the economic policy debate, particularly as to the ongoing interest in the issue of competitiveness. But, while there is general agreement that America's massive trade deficit presents a clear and present danger to the domestic economy, there is no such consensus concerning what to do about it.

The various approaches tried thus far have not, and will not, reduce the trade deficit, let alone offer relief to those afflicted by it. The dollar has fallen for 2 years, but the trade deficit has shown no sign of abating; 1986 set a new, all-time record. Yes, the December figure was lower than November's, but even acknowledging the vagaries of the month-to-month figures, a \$10 billion trade deficit or an annual rate of \$120 billion is still horrendous; \$10 billion still represents a quarter of a million jobs lost to the economy.

Similarly, there is no evidence that expansionary policies by our major trading partners, particularly Germany and Japan, will in itself reduce our trade deficit. The assumption that they would satisfy any increase in their domestic demand with American exports is not borne out by the facts. While the administration's rhetoric on unfair trading practices has risen noticeably, and some unfair trade cases have been initiated, the number and selection of those cases leaves something to be desired.

The bulk of our trade deficit is located in the manufacturing sector where your productive capacity and employment are being devastated. Selling more insurance to Korea, tobacco to Japan, will not ease those problems.

The final approach that has been tried and found wanting is the start of a new round of multilateral trade negotiations. Even the most successful negotiation we can imagine is years from conclusion. The damage is being done right now.

In addition, new agreements on trade and services or investment will do little for the steel workers who have already lost their jobs. Unless we take effective action, and soon, present trends in our domestic economy will accelerate. That should be a matter of deep concern to everyone.

Domestic demand has been satisfied by imports financed by borrowing from abroad. These huge capital in-flows used to purchase foreign goods have recently bestowed another distinction on the United States. We have passed Brazil as the world's largest debtor nation. From 1982 to 1985, we went from \$150 billion creditor to \$107 billion debtor. That trend continued in 1986. Projections of \$800 billion in net debt by 1990 are common.

At that point, debt service payments alone will consume 1 percent of real gross national product, requiring sharply reduced domestic spending, and with it, a reduced standard of living.

The impact on employment has already been devastating. 1986 was one of only 10 post-World War II years with an unemployment rate of 7 percent or more; 6 of those years were the years 1981 through 1986 when our international trade position drastically worsened.

As you well know, high unemployment means lost tax revenues, increased transfer payments and a deeper Federal budget deficit.

The issue at hand is the trade deficit. Any trade legislation will be a hollow shell if it lacks a strong deficit reduction provision. An effective provision would be one requiring any of our major trading partners who maintain excessive surpluses with us and who are found to engage in unfair trade practices to reduce those surpluses.

The chairman of this committee and Congressman Gephardt deserve credit for identifying this provision as a vital component of trade legislation more than a year and a half ago. Without the prospect of some ultimate penalty, all of these other measures are doomed to failure.

We have been negotiating with Japan for years. Our exports to that market are not substantially higher than they were 6 years ago. Germany, to date, has been unwilling to expand its economy or, for example, open its market to American telecommunications products. Taiwan asserts it needs special privileges because it is a developing country. No one can blame these nations for acting in that manner. They are simply pursuing their own self-interest as they define it.

Exporting nations believe that they need unfettered access to the American market in order to maintain and increase their standard of living. They restrict U.S. exports to develop their own industrial capacity. Unfortunately, these policies also undermine our standard of living.

While America's most important trading partners are succeeding with traditional mercantilist policies, our trade policies, or lack thereof, tolerate far more employment instability than other industrialized countries. No sector of the economy has been immune from damage. Specific industries have been especially hard hit.

The bill the House passed last year contained provisions dealing with industries such as telecommunications and steel. They continue to be needed.

Further, the Congress this year will once again consider legislation to address the devastation experienced in the textile, apparel and shoe industries. The jobs of hundreds of thousands of Americans hang in the balance.

I would also strongly urge this committee to include violations of labor rights under the definition of "unfair trading practices." Within the international trading system, it has long been agreed that certain practices, such as dumping and subsidies, convey unfair advantages, distort trade, and should be countered, minimized or eliminated.

But the list of unfair practices is concentrated on the capital or financial side of the production equation. Little, if any, attention has been devoted to labor. Thanks to the efforts of Congressman Pease and other members of this committee, that is changing, as well it should.

By what standard do we view abuses of finance more pernicious than abuses of the rights of people? By what logic do we sanction competitive advantages when they are gained by denying workers the right to organize and bargain collectively or by forced, compulsory labor or by child labor or by the refusal to observe even the most minimal health and safety standards?

Our living standard today is under siege from companies that gain competitive advantage from these reprehensible practices. American workers cannot and should not be asked to compete with foreign workers making a buck and a half a day. Those who claim that American workers have priced themselves out of the world market are saying, in effect, that the American standard of living is too high. Their logic that we can somehow get richer by getting poorer escapes me.

American workers are not too well-paid, and the American standard of living is not too high. Foreign workers are too often too poorly paid, and their standards of living too low. If developing economies are not to be dependent on production for export, they must develop domestic markets for their goods and services. That means expanding consumer purchasing power; in other words, higher wages.

One sure way to do that is by recognizing the legitimate rights of labor and including violation of those rights in our laws governing unfair trading practices. We can also expand consumer purchasing power in developing countries by addressing the continuing problem of their debts.

The relationship between the growing indebtedness of developing countries in trade is clear; to maintain the semblance of solvency, these countries have been required to restrict imports and boost exports to earn foreign exchange to service their debt. The burden of these policies falls disproportionately on the workers of both countries. In developing nations, it means slow growth, even a shrinking domestic economy. In America, it means increased unemployment in the face of low wage competition.

For those reasons, we support proposals to ensure that the burden is shared between capital and labor in a more equitable fashion, which envisions a reduction in the principal owed as well as lower interest rates in the debt outstanding.

These are not simply economic issues. If developing countries are not forever to be ruled and governed to enrich narrow, revolving elites, whether mercantile or military, they must encourage the growth of a working middle class and of stable, democratic institutions, among them free trade unions.

The task is not to reduce the quality of life in America to the lowest common denominator, but to raise it, and to raise the world to that higher level. Let us do that by exchanging our goods with other countries and not our standard of living. That is a responsibility you accepted and largely met in the last Congress.

The workers we represent hope that this Congress will send to the President a tough, effective trade bill that will help American workers and industry regain the production jobs and income lost in recent years. Mere cosmetic tinkering with changes with trade law, no matter how much those changes may be needed, is not enough. We need more than a bill to change procedures. We need legisla-

tion that recognizes the magnitude of the problem and takes the steps needed to bring about a solution.

To summarize, we believe an effective trade bill requires a strong trade deficit reduction procedure. We support the Gephardt amendment as a reasonable approach.

Second, an effective trade bill must also have strong workers' rights provisions. In addition to these essential provisions, we believe the committee should address other significant areas that require congressional action, including changes in trade remedy laws and measures to address the problems of specific industries.

I shall be happy to answer your questions.

[The prepared statement of Mr. Kirkland follows:]

TESTIMONY OF LANE KIRKLAND, PRESIDENT
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS
BEFORE THE COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES
ON COMPREHENSIVE TRADE LEGISLATION

February 5, 1987

Mr. Chairman, members of the Committee, I appreciate this opportunity to discuss with you the views of the AFL-CIO on the trade crisis confronting the United States. You are to be commended for both the early scheduling of this hearing and your determination to move rapidly. The AFL-CIO believes the bill passed by the House in the 99th Congress made significant progress in addressing this vital national issue. The workers we represent are confident that the 100th Congress will complete that process and send to the President a tough, effective trade bill that will help American workers and industry regain the production, jobs and income lost over the last number of years.

The concern of those members is very basic and very dire. For the first time in our history, we have a generation of Americans who cannot reasonably expect to do as well as their parents did. The middle class is shrinking. Scores of domestic industries and millions of American workers have been left defenseless against an onslaught of imports spurred by foreign government practices and the vagaries of U.S. macro-economic policy. The absence of a strong and predictable U.S. trade policy has contributed significantly to their fate.

Legislation will be a hollow shell if it does not have a strong deficit-reduction provision. Such a provision would require any major trading partner who maintains excessive surpluses with the U.S. and is found to engage in unfair trade practices to reduce those surpluses. It is clear that negotiations alone will not provide the answer. We have been negotiating with Japan, for example, for ten years, and during that time, the Japanese trade surplus with us grew substantially and goods made in the United States still have little access to Japanese markets.

Changes in trade law and policy to provide timely and predictable relief to workers and industries injured by imports are also long overdue. America's unfair trade laws must be strengthened to address new discriminatory commercial practices. The denial of worker rights by our trading partners can no longer be ignored. The international debt crisis must be addressed, insuring the lenders accept their proper share of the burden. Legislation is also required to deal with the problems of specific industries devastated by trade. While these and other measures are needed to build the foundation of an effective policy in the upcoming years, it is essential that Congress take steps to begin the immediate reduction of America's trade deficit.

Worldwide economic expansion, falling dollar exchange rates or successful negotiations are by themselves unlikely to achieve reduction of America's trade deficit. The dollar has fallen for two years, negotiations don't deal with the real problems in manufacturing, and even if worldwide economic expansion took place, it doesn't follow that other nations would import more U.S. goods.

Impact of Deficits

Unlike a few years ago, there is now general agreement that America's massive trade deficit presents a clear and present danger to the domestic economy. Those who in the past denied the very existence of a problem, or counseled patience to the victims of trade, have been largely silenced by the enormity of the shift in U.S. trade patterns. The figures are stark.

U.S. trade deficits the last few years have been the largest ever recorded by any country and in 1986 reached \$170 billion. This is more than four times higher than the 1980 level. For manufactured goods alone, America has gone from a surplus of \$17 billion in 1980 to a deficit of \$145 billion in 1986.

That record \$170 billion deficit was reached between 1980 and 1986 because imports into the United States increased 51 percent while, incredibly, U.S. exports dropped by 2 percent.

No sector of the economy is untouched. Mines are closing, manufacturing communities are devastated and escalating numbers of farm families have been driven off their land.

While U.S. purchases of civilian goods have increased some 25 percent over the last six years, more than half of that increased demand has been satisfied by imports financed by borrowing from abroad. This huge inflow of foreign capital, used essentially to purchase imported goods, has recently bestowed another distinction on the United States--that of the world's largest debtor nation. From its position as the world's biggest creditor--almost \$150 billion in 1982, a sum that took almost 70 years to accumulate--the United States in three short years passed Brazil to become the world's biggest debtor, owing some \$107 billion at the end of 1985. U.S. debt continued to grow rapidly in 1986, and projections of \$800 billion in net debt by 1990 are common. At that time, debt service payments alone will cost one percent of real Gross National Product thereby requiring sharply reduced domestic spending and with it reductions in our standard of living.

Further, most economists project an exceedingly sluggish GNP growth rate of only 2.9 percent in 1987 for the U.S. economy. Central to these modest predictions is an improving U.S. trade balance. Yet, even the most optimistic analysis predicts, in this present policy climate, \$150 billion deficits this year and \$100 billion-plus deficits for the foreseeable future.

This economic future becomes even bleaker when considered in the context of the damage already done to the U.S. economy, in large part by trade, over the last six years.

The impact on employment has been devastating. Despite a modest drop in the unemployment rate for December, 7.9 million people continue to be officially out of work, with another 6.5 million either too discouraged to seek work or working part-time involuntarily. The year 1986 was only one of ten post-World War II years with an unemployment rate of 7 percent or more, and six of those years were the years 1981 through 1986 when America's international trade position nosedived.

While total employment has grown in the last six years, that growth has taken place solely in the service sector. Employment in manufacturing has actually declined by some two million jobs. Further, the overall rate of employment growth in the last six years is 29 percent below average growth rates of the 1970s.

That jobs have been lost to trade is widely acknowledged. Last year, the Department of Commerce estimated that in 1984 alone 1.8 million jobs were displaced by trade. Updating that analysis for 1985 and 1986, the domestic economy suffered employment losses in those years due to trade of 2.2 and 2.5 million, respectively. Manufacturing was hardest hit.

In a study on displaced workers released in October, the Bureau of Labor Statistics reported that between 1981 and 1986, 13.1 million lost their jobs due to plant closure, slack work or layoffs--years when our trade deficit was growing dramatically. More than five million of these displaced workers had been at their jobs for at least three years. Of these, the survey found that 18 percent remained unemployed and an additional 15 percent had left the workforce entirely. For those fortunate enough to find other jobs, 10 percent were working part-time, and of those securing full-time work, 40 percent were forced to accept lower pay.

Income levels have also been affected. Average weekly earnings for U.S. non-supervisory production employees have declined about 9 percent from 1977 to 1986, in constant dollars. The reduction of employment in manufacturing and the growth of jobs in services contributed to this decline in pay. Average weekly earnings for manufacturing workers reached \$395 in 1986. Workers averaged \$176 in retail trade and \$265 in the service industry, two sectors where the employment growth has been largest. In all, 60 percent of the new jobs created since 1979 paid less than \$7,000 a year.

Family share of national income has also undergone a dramatic shift. For the period 1980 to 1985, the top 20 percent increased its share of national income to 43.5 percent, the highest concentration in the history of the series which began in 1947. By contrast, the bottom 20 percent of families received only 4.6 percent, the smallest share since 1954.

Loss of income and recessionary levels of unemployment contribute significantly to the federal budget deficit. A Congressional Budget Office report stated last year that a one percent reduction in the unemployment rate would bring in \$37 billion more in tax revenue and require \$7 billion less in transfer payments like unemployment compensation, food stamps and welfare.

The government's response to these problems has been one of studied indifference. While America's most important trading partners are succeeding with traditional

mercantilist policies, U.S. trade policies--or lack thereof--tolerate far more employment instability than other industrialized countries.

U.S. Trade Representative Clayton Yeutter echoed this view in a Forbes Magazine article some time ago by stating: "No other country in the world would have left its markets as open as the U.S., and clearly this has been of enormous benefit to the rest of the world. And by the way," Yeutter added, "we get very little credit for this. You don't hear the Europeans or the Asians or the Third World saying what a marvelous job we've done keeping our markets open during a difficult period. You just hear them clamoring for more access."

Further, little concern is shown for workers once they are displaced by trade. The Administration has drastically reduced the funds available for supporting, training and upgrading skills for trade-displaced workers and continues to favor the elimination of the trade adjustment assistance program. Even the Administration's recent budget proposals, trumpeted as a belated recognition that additional adjustment efforts are needed, signal the end of trade adjustment assistance under the guise of program consolidation.

Nevertheless, many in the Administration now recognize that the U.S. trade deficit has reached crisis proportions. For example, Deputy U.S. Trade Representative Alan Woods recently stated in a Journal of Commerce article, "The world cannot get comfortable with a U.S. trading deficit of between \$150 and \$170 billion. The system will just crack. It's not in anyone's interest that that happen."

Insufficient Responses

The question now is what to do about it. Over the last few years, the Administration has relied essentially on the depreciation of the dollar, the need for our major trading partners to pursue expansionary policies, a rhetorically tougher approach to foreign trade practices, and a new round of multilateral trade negotiations.

The steep rise in the value of the dollar from 1980 to February 1985 contributed to America's trade problem, but the impact has been overstated. During that five-year period, U.S. bilateral trade deficits grew substantially with countries like Taiwan and South Korea who essentially tie their currencies to the United States. The U.S. bilateral trade deficit with Japan skyrocketed even though the dollar had appreciated only marginally against the yen. Now that the dollar has fallen against the yen, there is similarly little assurance that this alone will reduce the U.S. trade deficit. Japanese companies have responded by cutting their profit margins so they can maintain their share of the U.S. market. Insofar as U.S. exports to Japan are concerned, an official of Japan's Ministry of Trade and Industry, noting that primary products make up almost 70 percent of Japan's imports, was quoted saying "nobody would want to eat more even if imported agricultural products become cheaper."

Overall, the dollar has been in decline for almost two years, and the trade deficit has shown no sign of abating. The 1986 deficit set an all-time record. While the dollar has dropped some 40 percent against the yen and the mark, when it is measured against the currencies of the 25 countries from which we import the most merchandise, it has declined less than 10 percent. A recent Wall Street Journal headline sums it up best: "Dollar's Decline Fails to Narrow Trade Gap as 1985 Pact Intended."

The call for expansionary policies by our major trading partners, particularly Germany and Japan, is conceptually a similar approach. The problem with this proposal is that it assumes any increase in demand would be satisfied by U.S. exports, an assumption that is not supported by recent evidence. Between 1980 and 1985, real U.S. GNP increased by some 12 percent, with real imports increasing 45 percent. During this same time period, the Japanese economy grew 21 percent, but imports increased only 9 percent. Germany's economy grew 6 percent, and imports grew just 10 percent.

Both Germany and Japan maintain huge worldwide trade surpluses, \$29 billion and \$77 billion, respectively, and therefore have the capacity to substantially increase imports from the United States. Simple economic expansion, however, in the absence of other policy changes, will not necessarily bring this about. Their policies concerning imports must change as well. This should be a goal of any U.S. trade bill.

On the question of tougher Executive Branch action against harmful foreign trade practices, the Administration's rhetoric has risen noticeably in the last year or so. A number of long-standing complaints raised by domestic industry have apparently been settled. The Administration has even initiated some unfair trade cases itself in an effort to demonstrate a seriousness of purpose. The number and selection, however, leave

something to be desired. For example, selling more insurance to Korea will not solve our trade problems, and the actual results of the U.S./Japan agreement on tobacco or efforts to get Brazil to open its markets for computers and related equipment have not yet been realized. While we applaud the effort to open the European agricultural market, we believe the manufacturing sector, where our productive capacity and employment is concentrated and being devastated, deserves equal treatment.

One month ago, in another manifestation of this "new" get tough approach, the Administration announced the reduction of trade preferences for several countries, covering about \$3 billion of goods. At the same time, however, they were increasing the preferences on other goods amounting to \$2 billion. One of the products granted open-ended duty-free treatment was telephone equipment from Singapore. In the summer of 1985, AT&T announced that it was moving telephone production from its plant in Shreveport to Singapore, eliminating more than 1,000 jobs. How can we solve our trade problem when government policy aids and abets the export of American jobs?

Though inadequate, these actions only came about when the Administration has been under intense pressure from Congress. Only Congressional action can insure that the United States vigorously pursues unfair trade practices. Our problems demand more than symbolic actions.

The final piece of the Administration's policy has been the initiation of a new round of trade negotiations. The AFL-CIO does not oppose trade negotiations in and of themselves. Negotiations in the past however have not provided the relief that is essential to the survival of trade-impacted industries and their workers in the United States.

Even if wildly successful, agreements are years away. The damage is being done right now. Negotiations will not create or implement an effective national trade policy or reduce America's huge trade deficits. We are principally concerned that negotiations are considered by the Administration as a substitute for urgently needed action to remedy the injury to domestic industry and workers caused by America's massive trade imbalance. This concern is heightened by the Administration's vehement opposition to the House-passed Trade and International Economic Policy Reform Act of 1986. The AFL-CIO believes that that bill would have provided some immediate relief from the nation's trade problem and would have gone a long way to forming the foundation of an effective national policy for years to come.

The AFL-CIO is also concerned about the overwhelming priority given by the Administration to negotiations on services and investment in the new round. The principal trade problem facing the United States is undeniably the massive shift that has occurred in trade in the manufacturing sector and the resultant loss of employment. Emphasis on "liberalizing" trade in services and investment flows will have little impact on this central issue and may in fact accelerate the deterioration of the domestic manufacturing sector if essential U.S. protections in the goods area are sacrificed as the price for reductions in barriers to services and investment. Further, what may appear to some as "barriers" to service trade or international investment are in fact proper and even essential social and economic policies in both the United States and foreign economies. Banking and insurance regulations, protections of personal privacy, immigration rules and restrictions, and standards for lawyers, doctors and accountants are but a few examples.

While the unrestricted flows of services and investment may be important to certain corporate interests, this does not make it significant for the economy as a whole. Since to a large degree services must be produced where they are consumed, any U.S. employment gains from increases in service trade would be marginal at best. The growth of service sector employment domestically has been in areas unrelated to international trade. Similarly, negotiations aimed at easing restrictions on international investment will do little to promote domestic economic growth and employment.

The AFL-CIO is also concerned over the possibility of reduction in U.S. tariff rates. We are adamantly opposed to any tariff cutting for import-sensitive products. A range of industries have already been seriously harmed by imports, and reductions in tariffs would only aggravate their difficulties.

Finally, agreements reached to launch the new round that ostensibly require a standstill and rollback in so-called trade restrictive measures are central to labor's concerns. The United States must not relinquish its right to take needed actions at the national level to defend domestic industry.

Needed Responses

Macro-economic measures, trade policy symbolism or multilateral trade negotiations will not by themselves provide the solution to America's trade crisis. Changes in trade law and policy are urgently needed. The AFL-CIO strongly supported many of the changes contained in the House trade bill passed last year. That bill was an attempt to deal with an exceedingly complicated problem in a comprehensive fashion. The AFL-CIO continues to believe that legislation must include provisions to reduce excessive surpluses with the United States from countries that maintain unreasonable trading practices. In addition, effective worker rights provisions; trade law reform that provides more effective injury relief and protection from unfair trade practices; measures to deal with the less-developed country debt crisis; and industry-specific remedies are needed.

Deficit Reduction

Any trade bill that hopes to begin addressing America's trade crisis must contain measures to reduce this country's trade deficit. The House bill contained such a provision. It would have provided badly needed impetus to countries that maintained excessive trade surpluses as well as unfair and discriminatory trade practices with the United States to begin immediately to reduce those surpluses in an orderly fashion. Both tests were necessary for any government action.

I want to commend both the Chairman and Congressman Gephardt for their foresight in identifying this area as a vital component of needed trade legislation more than a year and a half ago. The House bill passed last Spring made a number of modifications to their original proposal that significantly increased the discretion of the President in a variety of ways. We agreed to these changes very reluctantly, but continued to support the legislation as contained in the House bill because the basic thrust was good. It still is.

Though responsibly addressing the problem of both unfair trade practices and excessive surpluses, problems on which there are general agreement, the provision garnered considerable criticism from many quarters, the Administration in particular, as being protectionist and a latter-day version of Smoot-Hawley. It is neither, and is the only reasonable and effective method of insuring that the trading system will survive.

The Administration itself acknowledges that Japan, Germany, and Taiwan need to drastically increase their purchase of American products and reduce their trade surpluses. Negotiations to this end are going on continually. It is, at best, naive to believe that our major trading partners will change their policies toward trade--policies that have been successful--simply because we ask them to do so. All too frequently, access to the U.S. market is viewed as a divine right, while restrictions on American exports are merely appropriate expressions of their national interest. It is clear that negotiations, without the prospect of some ultimate penalty are doomed to failure. We have been negotiating with Japan for years and U.S. exports to that market are not substantially higher than they were six years ago. Germany to date has been unwilling to expand its economy or, for example, open its market to American telecommunication products. Taiwan asserts it needs special privileges because it's a developing country.

But effective action to deal with these problem gets labelled "protectionist." For example, news of the November trade deficit broke, the Washington Post story carried a headline that said it would "feed protectionist sentiment." The sentiment's not the problem. The trade deficit is.

Worker Rights

Section 301 should be amended to define as an unjustifiable and act, the failure on the part of a country to take steps to adopt internationally recognized worker rights, as contained in Title V of the Trade Agreements Act of 1984. Failure to take such steps should result in the denial of most-favored-nation treatment as long as that country remained out of compliance. The AFL-CIO strongly believes that competitive advantage in trade should not be derived from the denial of the right to freedom of association, the refusal to insure a safe work environment, the absence of acceptable standards for minimum wages, the exploitation of child labor or other such reprehensible practices. Under the leadership of Congressman Pease, last year's House bill made significant progress toward achieving this goal, and legislation this year should do nothing less. It should be emphasized that the inclusion of these worker rights and standards in U.S. trade law does not require the international adoption of U.S. practices. There already exists international agreement on their meaning through the conventions of the International

Labor Organization. For example, acceptable standards for minimum wages does not mean the adoption of the U.S. minimum wage, but the establishment of minimum wage machinery commensurate with a country's level of development.

Injury Relief

The "escape clause" (Section 201 of the Trade Act of 1974) was designed to provide a safety valve for those industries threatened with or experiencing serious injury from imports. Of the some 60 cases filed since this provision became part of law, only 12 have resulted in relief other than adjustment assistance. Even in those cases, the relief has rarely been enough to allow the injured industry to fully recover from the import assault. To improve the functioning of this provision, the standard used by the International Trade Commission (ITC) in finding injury should be changed to the GATT standard under which imports must be a cause (rather than a substantial cause) of serious injury or threat thereof. If the ITC finds injury, trade adjustment assistance should be automatically provided. We believe that while the U.S. Trade Representative (USTR) should have the discretion to modify the ITC recommendation, including the authority to negotiate Orderly Marketing Agreements, the USTR must be required to take some action to provide relief which fully redresses the injury.

Further, petitioners should have the option of requesting the establishment of an industry advisory group made up of representatives from business, labor and government to develop a plan to improve an industry's competitiveness. While the ITC should be required to take into account a group's plan in making its recommendation, the absence of a group or plan should not prejudice the ITC's decision.

Unfair Trade Practices

Section 301 provides the President with broad authority to take action against foreign countries whose practices burden, restrict or discriminate against U.S. commerce. While in recent months the Administration has initiated some actions against countries with unreasonable and unjustifiable practices, the United States must go beyond symbolic actions and vigorously pursue foreign practices that are harmful to U.S. domestic interests.

Among many needed changes, we strongly support provisions that would require action in response to foreign industrial targeting that causes or threaten to cause material injury. We must not allow domestic industry to fall victim to the coordinated and predatory practices of other countries.

In addition, the countervailing duty and the anti-dumping statute must be strengthened, and problems concerning intellectual property, national security, natural resource subsidies and trade with non-market economies be addressed.

Less-Developed Country Debt Crisis

As part of any comprehensive solution to America's trade problem, steps to address the continuing problem of less-developed country debt are needed. The relationship between the growing indebtedness of the poorer countries and trade is clear. To maintain the semblance of solvency, these countries have been required to restrict imports and boost exports in order to earn foreign exchange to service their debt. The burden of these policies has disproportionately fallen on the workers of both countries. It is essential that measures be adopted to insure that this burden is shared in a more equitable fashion. The AFL-CIO supports proposals that would reduce the principal owed as well as mandate reductions in interest rates.

Industry-Specific Measures

Beyond the general reform and reorientation of U.S. trade law, measures designed to solve the problems of specific industries, such as textile and apparel, shoes, telecommunications, maritime transport, steel and printing, continue to be needed. Last year's House bill contained provisions dealing with some of these industries. True reciprocity in telecommunications trade, and the enforcement and extension of the steel VRA's are essential aspects of trade reform.

In addition, Congress this year will again consider legislation to provide solutions to the problems of the trade impacted textile, apparel, and shoe industries. The need for

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legislative action has actually increased. Production worker employment in these industries is at a new low. Imports are more than two and one-half times their 1980 level, increasing 11 percent for shoes and 17 percent for textiles and apparel in 1986 alone. The jobs of hundreds of thousands of Americans depend on a strong Congressional response to this dramatic growth in imports.

We stand ready to discuss these with you, as we have in the past, at any time.

Mr. Chairman, too often, workers are asked to bear all the burden of trade injury, and in the months ahead that demand may come to this committee in the guise of "competitiveness." Some will use that word to camouflage a desire for the United States to compete around the world on the basis of wages alone. Obviously, we will oppose that with all the blood that's in us. This new focus on competitiveness will be regrettable if it ignores many of the qualitative aspects of economic life that have become important, if not central, to the functioning of our society. National decisions concerning clean air and water, hazardous substances, child labor, hours of work, the right to bargain collectively --the list can go on and on--can be viewed as reducing our international competitiveness. Yet, few would suggest turning the clock back to a time of 10-year old workers, or unbreathable air. The real question before the nation isn't simply competition, but competition on what basis.

Here at home, business leaders have sought worker cooperation--and by and large, they've gotten it, through a wide variety of creative agreements. In aerospace, in telecommunications, in transportation, the examples are legion.

But that cooperation was extended to only one type of employer--the one the workers believe. To the extent the sacrifice and adjustment is shared and the venture is believable, workers will ratify new agreements. For the nation as a whole, then, it is reasonable to predict that creative agreements can be found to enhance competitiveness provided the government first proves its credibility with the action workers seek on foreign trade.

This is where Congress must exercise its responsibility to defend the national interest. Although sorely needed, tinkering with changes in trade law is not enough. The country needs more than a process bill. It needs legislation that recognizes the magnitude of our problem and implements recognizable steps to bring about that problem's solution. Anything less is just smoke and mirrors.

Attachments

Fact Sheet on Trade

U.S. Balance of Trade

In 1986, the U.S. trade deficit reached \$170 billion, four times the level experienced in 1980. During this period, exports declined 2 percent with imports increasing 51 percent. The major component of this deterioration was manufacturing trade where the U.S. moved from a surplus of \$17 billion in 1980 to a deficit of \$145 billion this past year.

U.S. BALANCE OF TRADE
(Billions of Dollars)

	Merchandise [*] Trade Balance	Manufactured Goods Trade Balance	Balance on ^{**} Current Account
1980	- 36	17	2
1981	- 40	10	6
1982	- 43	- 7	- 9
1983	- 69	- 35	- 47
1984	- 123	- 83	- 107
1985	- 148	- 107	- 118
1986	- 170	- 145	- 140 ^{***}

BILATERAL U.S. MERCHANDISE TRADE BALANCE
(Billions of Dollars)

	1980	1981	1982	1983	1984	1985	1986
Japan	- 12	- 18	- 19	- 22	- 37	- 50	- 59
Canada	- 7	- 7	- 13	- 14	- 21	- 22	- 23
Germany	- 1	- 2	- 3	- 4	- 9	- 12	- 16
Taiwan	- 3	- 4	- 5	- 7	- 11	- 13	- 16
Republic of Korea	---	---	---	- 2	- 4	- 5	- 7
Italy	+ 1	---	- 1	- 2	- 4	- 6	- 6

* Includes all trade in goods (agriculture, minerals, manufacturing products)

** Includes merchandise trade, services trade, investment income, unilateral transfers, military transfers

*** Projected

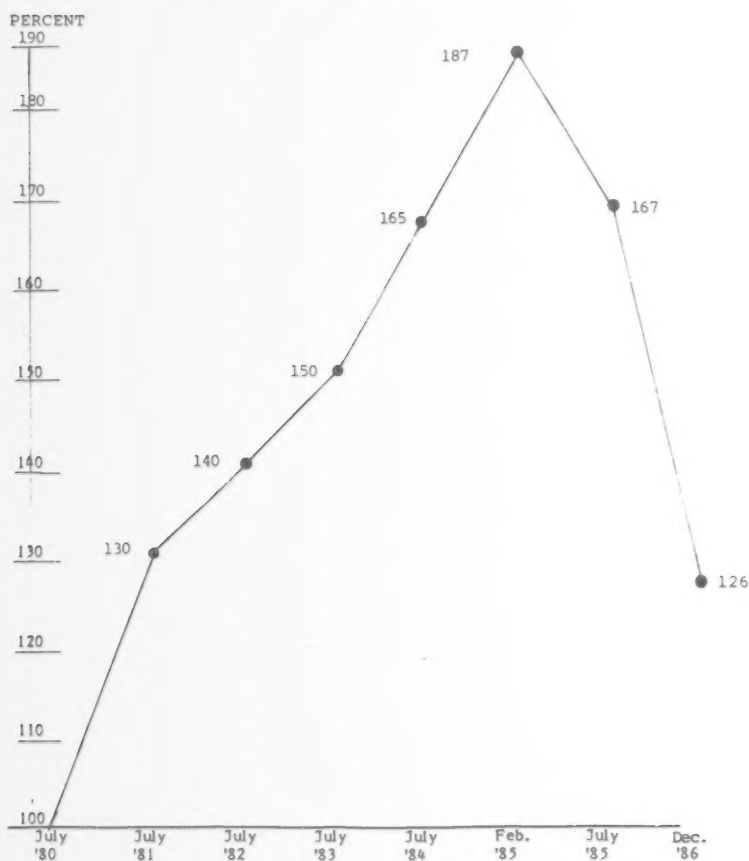
February 1987

EXCHANGE RATES -- January 30, 1987
(Currency Units per U.S. Dollar)

	Jan. 30, 1987	Feb. 1985	July * 1980	% Chg Since Feb. 1985	% Chg Since July 1980
German Mark	1.83	3.30	1.75	- 43	+ 5
Canadian Dollar	1.34	1.35	1.15	---	+ 17
Japanese Yen	154	261	221	- 41	- 30
Italian Lire	1,301	2,041	832	- 36	+ 56
Taiwanese Dollar	35.14	39.23	---	- 10	---
Korean Won	858	839	607	+ 2	+ 41

* Date of the lowest weighted-average exchange value of the dollar since exchange rates were allowed to float

Change in Value of the U.S. Dollar -- July 1980* to December 1986
Trade Weighted-Average of Major Trading Partners - Federal Reserve Board



Chairman ROSTENKOWSKI. Thank you very much for sharing both your time and your views on this very important matter.

Mr. Gibbons.

Mr. GIBBONS. Mr. Kirkland, sometimes I realize I am accused of being way away from your views; but, as I listened to your views here, there is not a whole lot I can argue with you about. We do have to get into the thicket of labor standards. We have avoided it for 50 years. But you can't avoid it. It is obvious and it must be there.

I agree with you, we should not be lowering our standard of living as we are trying to open the markets of the world. I agree with that philosophy.

I do want to try to work on the Gephardt amendment and make it a little more specific and perhaps a little easier to interpret. We will try to do that.

Have you looked at Mr. Guarini's proposal about giving a right of action to both—yours covers both labor and industry, doesn't it?—against dumped goods to receive compensation for the injury involved? Have you all looked at that?

Mr. KIRKLAND. We have supported that, sir.

Mr. GIBBONS. Good.

Well, I look forward to working with you. We will try to get a bill out of here that will help America.

Mr. KIRKLAND. We welcome that, sir.

Chairman ROSTENKOWSKI. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

Thank you, Mr. Kirkland, for your excellent testimony. I thought the portions of your testimony heaping praise on the Pease part were especially good.

Mr. KIRKLAND. You are entitled, sir.

Mr. PEASE. As you know, on January 2, the Reagan administration announced that three countries—Romania, Nicaragua, and Paraguay—would immediately lose their GSP eligibility because of worker rights violations. At that time, the USTR underscored that these actions, and I quote, demonstrated the importance which this administration attaches to internationally recognized worker rights, end quote.

As you know, the GSP law stipulates in regard to GSP designation, quote, No designation shall be made if such country has not or is not taking steps to afford internationally recognized working rights to the workers of that country, end quote.

What is your view of the performance of the administration thus far in enforcing the mandatory and discretionary provisions of the GSP law that we passed 3 years ago?

Mr. KIRKLAND. First, Mr. Pease, we, of course, welcome whatever steps the administration took to enforce that law. We welcome it because, not that it was adequate in its extent, but because it did, I think, affirmatively establish the fact that the enforcement of these principles is quite practical and doable; and further that a basis exists for making those judgments.

We were disappointed in the extent of it. We submitted to the administration a case, I think a very strong case, for the application of that provision to, I believe, 10 countries. With each country, we offered, put forward the grounds which we regarded, and con-

tinue to regard, as abundant and strong for our case that they, too, should be removed from the GSP because of the violation of workers' rights.

I would be happy to provide the committee with that list, and with the supporting arguments and facts that we put forward to support our contention that all 10 of these countries should have been removed from the GSP on those grounds.

[The information follows:]

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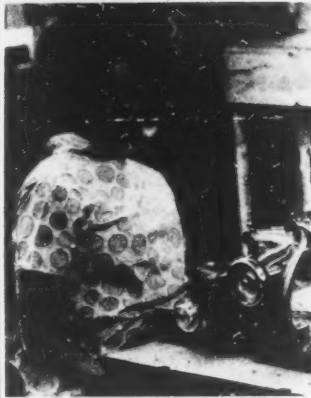
Worker Rights & FOREIGN TRADE

On Oct. 8, 1986, Jorge Millan, president of the Chile Laboratory Workers Union, was picked up in Santiago by persons in plainclothes identifying themselves as agents of the National Investigation Central (CNI). He was forced into a van and driven around for hours. With the drive came intensive interrogation about a labor training course he was about to attend in the United States, sponsored by the AFL-CIO's American Institute for Free Labor Development. Agents remained with his family too, interrogating them. During his trip, the agents discussed in front of him how they were going to kill him. One suggested that they hang him. Another proposed that they slit his throat. At the end of the trip one of them put a gun to Millan's head and pulled the trigger three times. The empty barrel clicked and he was released.

Millan has been trying to organize a free trade union in Chile for years. Yet workers in Chile, as in many other countries, are denied the basic right to organize freely into trade unions of their choosing and to bargain for better wages and working conditions free from government intimidation.

The American labor movement has long held that the denial of trade union rights in any part of the world affects the security of worker freedom everywhere. It is this belief that was behind American labor's involvement in international labor rights causes dating to the Mexican Revolution. It helps explain why American unions provided aid to European trade unionists anxious to preserve their democracies during and after World War II, why U.S. labor leaders helped them defeat Soviet-supported efforts to scuttle the Marshall Plan; why in the 1960s the AFL-CIO founded three regional labor institutes to work with free trade unionists in the developing regions of Asia, Africa and Latin America; and why today the AFL-CIO supports legislation to insure that trade benefits are withheld from countries who deny their workers fundamental trade union freedoms.

American labor's involvement in formalizing such pressure dates back to 1919, when the president of the American Federation of Labor, Samuel Gompers, helped draft the documents at Versailles that were the basis for the formation of the International Labor Organization (ILO). Today the ILO is a tripartite body that brings together representatives of business, labor and government from 150 countries to devise standards for work: including worker health and safety, child labor and wages. Among the ILO's historic achievements are the most important pieces of international labor legislation in the world—those guaranteeing freedom of association, the right to organize and bargain collectively



and the right to work free from government coercion and an absence of any form of forced labor.

These ILO conventions, as they are called, offer free labor unions worldwide a standard against which to measure their own advances. And while the ILO standards themselves bear improving, for many they present the only internationally recognized basis for judging what is free and what is fair to trade unions. They insist that workers have the right to create and join unions, draw up their own union rules, elect their own leaders, develop their own programs, make their own affiliations with national or international union organizations if they so wish. Current ILO standards also call for a 40-hour week, generally set the age limits of child labor at 15 and provide for extensive recommendations on mechanisms for preventing work place accidents and work-related illnesses.

As important as these ILO standards are, the ILO ultimately has little in the way of mechanisms to enforce their application. Thus, for the AFL-CIO, tying trade union rights to trade has become a creative approach to insuring that fair treatment becomes a reality for oppressed workers in countries around the globe.

American labor therefore argues that if there is to be fair competition, it cannot be based upon the exploitation of workers. For decades products made by slave or penal labor have been legally banned from international trade, as well as interstate com-

merce. Now the AFL-CIO is working to extend the scope of the idea to include related basic workers' rights.

The AFL-CIO proposals, supported in Congress by Rep. Don J. Pease (D-Ohio), were incorporated into the 1984 amendments to the Generalized System of Preferences section of the Tariff Act and in the 1985 legislation governing the Overseas Private Investment Corporation and, in more modest form, in regulations governing the Caribbean Basin Initiative. They were also included in the Trade Bill passed by the House in May 1986.

The Chile of Jorge Millan currently benefits from the Generalized System of Preferences (GSP), a mechanism provided for in the U.S. Trade and Tariff Act. The GSP preference goes to qualifying products from countries judged to be "developing." There are 140 countries that reap such benefits for the sale of thousands of products here. The value of these products has steadily grown since the GSP was created, from \$3.2 billion in 1976 to \$13.3 billion in 1985.

The AFL-CIO has urged that such trade benefits be treated as privileges, demanding civilized democratic behavior in return. In this context the AFL-CIO has participated in the U.S. government's review process by providing up-to-date information on the status of workers in critical countries, hoping that a good faith effort to review both the laws and the practices of countries will contribute to a better future for the workers who live in them.

Beginning in 1985, at administrative hearings on GSP, the AFL-CIO called for the denial of GSP benefits to ten of the most egregious offenders of workers' rights: Chile, Guatemala, Haiti, Nicaragua, Paraguay, The Philippines, Romania, South Korea, Suriname, and Taiwan. In future years it may target more.

Its charges were built on provisions in the law saying that:

"... the President shall not designate any country a beneficiary developing country under this section ... if such country has not taken or is not taking steps to afford international recognized workers' rights to workers in the country (including any designated zone in that country)."

Further, the law defines "internationally recognized worker rights" to include:

- (A) The right of association;
- (B) The right to organize and bargain collectively;
- (C) A prohibition on the use of any form of forced or compulsory labor;
- (D) A minimum age for employment of children; and
- (E) Acceptable conditions of work with respect to minimum wages, hours of work and occupational safety and health.

This article was prepared by the Free Trade Union Institute for the AFL-CIO Dept. of International Affairs.

Under the law the U.S. government is thus obligated to remove countries who deny worker rights from the list of those countries receiving special duty-free benefits under GSP. That review process began in June 1985, with public hearings, and will be completed by the end of 1986. Because a country judged in violation loses benefits for all products with GSP status, these first interpretations will set important precedents.

As the U.S. government considers taking countries off the list of GSP beneficiaries, a number of thorny interpretive disputes have emerged. One has to do with whether worker rights standards should be relative to the particular development level of the country at issue. Another is the question of what constitutes a fair definition of "taking steps" toward improvement.

Some relative judgments are inevitable. The AFL-CIO would not argue, for example, that a country should be denied GSP benefits simply because its labor standards do not precisely match our own. Few countries have established the level of benefits and protection that obtain in the United States. Yet, the notion that the right to organize or negotiate, or withhold work should somehow vary with a country's level of economic development reflects thinking more attuned to the tenets of democratic freedom than the values of our own society.

As for "steps," they must clearly amount to more than promises and must involve fundamental change.

In making the labor rights case against GSP trade benefits (others have been made elsewhere), the AFL-CIO has adhered strictly to labor rights criteria. Some countries whose GSP status was challenged have minimal trade with the United States; others are among the top GSP beneficiaries.

In the course of this review some specious Administration arguments have emerged aimed at softening interpretations of compliance. Some maintain that freedom of association extends no further than traditional bread and butter issues, urging that political rights and activities have no place on union agendas. Others, acknowledging that labor rights are violated in some countries, say that the labor rights provisions of the law should simply be bypassed, and an "economic waiver" granted if the labor evidence is disquieting. (The law has a loophole for such side-stepping if the President determines that keeping a country on the list "will be in the national economic interest.") A third argument accepts at face value the promises of reform offered by some notoriously two-faced governments, as sufficient evidence that "steps" are being taken.

In answering these, the AFL-CIO first maintains that the right of unions to be involved in elections, to engage in get-out-the-vote drives and to speak out on issues debated by executives and legislators are function inherent to worker representation. Second, American labor is unlikely to be sympathetic to a U.S. government claim that trade with any of these "developing" countries is essential to the "national economic interest." The notion that

we are helping those supposedly in need simply does not mix credibly with the idea that our own economic health is at stake. Third, the track record of some of these countries in making promises is notorious. It is practice, not promise, that should be judged. In short, all three types of arguments reflect a distorted interpretation of the law and fly in the face of congressional intent.

It must also be pointed out that it is the American labor movement that is engaged in this process and is responsible for the material presented. These are the positions of the AFL-CIO. While the unions in the individual countries discussed here know of the AFL-CIO's interest, and generally appreciate our efforts to ameliorate their condition, they are not responsible for American labor's arguments and should suffer no consequences from their governments because of them.

The cases made below have been updated since their original presentation in June 1985. In practically every instance, the governments in the countries charged, smarting from the AFL-CIO's critique, have tried to respond. In three cases—those of Guatemala, Haiti and the Philippines—governments have recently changed. And while fair labor practices are not yet in place there, the beginnings of improvement warrant a delay in the decisions on these countries.

So, for these three the AFL-CIO recommends that the decision on their status be postponed. The others should be removed from the GSP preferential list immediately.

CHILE

The AFL-CIO says:

Remove from GSP list ☒

Postpone decision pending further review ☐

The current dictatorship of Augusto Pinochet, in power since 1973, is one of the most blatant and crude opponents of democratic trade unions in Latin America. The Pinochet regime's long history of terror against democratic unions includes endless examples of violent intimidation. Chilean law itself does not camouflage restrictions designed to prevent the development of representative worker organizations. The record of the Chilean government clearly violates the fundamental trade union rights of freedom of association, and to organize and bargain collectively.

In 1979 the Pinochet regime put in place a Labor Plan which fragments and weakens the labor movement. Though its provisions were superficially modified in 1984 and 1985, basic restrictions on collective bargaining, dues checkoff, political activity and the establishment of union federations and confederations continue to take a heavy toll.

Many brave union leaders have suffered the consequences of the Chilean government's fear of democracy, some even with their lives. In 1982, days after he issued a call for trade union unity, Toussaint Jimenez, president of the National Federation of Government Employees, was found lying on the roadside, his throat cut, shot in the head twice.

Similar incidents are not hard to document. In November of 1984, following a successful national strike, the government banned union meetings, censored the press and monitored phone conversations and correspondence. (Such practices are legal under a "state of siege," three of which have been declared since Pinochet took office.) A number of trade unionists were arrested, two were assassinated, and two union offices were wrecked. On May 29, 1985, Manuel Guerrero, president of the Metropolitan Council of Chile's National Association of Teachers, was kidnapped and murdered, just after the teachers' association headquarters had been forcibly entered, film and equipment destroyed, and five people arrested.

After a general strike on July 2 and 3, 1986, 15 civic leaders including some unionists, were arrested, and a state of siege declared once again. In mid-September shots were fired at a car driven by the son of Hernán Flores, secretary general of the Confederation of Democratic Workers (CDT), presumably aimed at Flores himself. While no one can specifically pin murders and attempted murders on the government, the failure of the government to arrest or prosecute suspects in these incidents is noteworthy.

As for Chilean labor law, the AFL-CIO finds the following to be intolerable:

• Provisions preventing union organizing, including government power to interfere in union elec-



Young Filipino women work long hours for meager pay on assembly lines of today's electronic sweatshops. Outcast Marxist government collaborated with employers to stifle organizing efforts of unions in the Philippines.

tions, deny union recognition, restrict the number of union officers, suspect internal union records, including finances; prevent the unionization of civil servants, and prohibit collective bargaining in state administrations, selected public utilities and other companies.

• Restrictions on establishment of federations and confederations for multi-plant collective bargaining purposes.

• Prohibitions against trade union participation in political activity.

• Restrictions on the right to strike in "strategic industries," including public utilities and selected copper petroleum enterprises. Employers striking more than 60 days lose their jobs.

No significant changes have occurred to warrant a judgment that Chile has anything but a repressive posture toward democratic unions. In June 1986, a mission of the International Confederation of Free Trade Unions, which included AFL-CIO Sec-Treas. Thomas R. Donahue, called the Pinochet stance "demeaning" and "intolerable." The government's behavior warrants its removal from the GSP list.

GUATEMALA

The AFL-CIO says:

Remove from GSP list ☐

Postpone decision pending further review ☒

Circumstances in Guatemala have changed markedly since the AFL-CIO first indicated that this country should be removed from the GSP list. A military regime has been replaced by elected civilian officials.

A two-round democratic election was held in the

fall of 1985, resulting in the Presidency of Vinicio Cerezo and a victory for Guatemala's Christian Democratic Party. Since then, constitutional changes have gone into effect which allow for trade unions to engage in political activity. Reforms of the labor code are being considered which could result in the easing of restrictive legislation that has historically governed the right to strike and has inhibited unionization of some sectors of the economy.

While these changes and the hopes for more are pluses, there are also some disturbing signs that the government's party has plans to take over the union movement. The new Guatemalan president is building a base for his Christian Democratic Party, and a party-subordinate union seems to be part of that strategy. Leaders of the independent Confederation of Trade Union Unity of Guatemala (CUSG) have charged that some workers have been told that if they hope to keep their jobs they should join the party-controlled union, the General Coordinator of Workers. Conversely, some who are already members of the CUSG have been warned that unless they quit the union they may lose their jobs.

Supplementing this pressure has been the government's employment of workers whose assignment is to recruit members of the party union. For example, a memorandum distributed by the Guatemalan Institute of Social Formation, a private institute headed by the leader of the party-dominated union, announces that the Ministry of Development has employed special activists to recruit agricultural workers for the new union.

In recent weeks the Ministry of Labor instructed the Congress to table a labor law proposed by the Public Employees Federation of Guatemala designed to expand public employees rights to organize, indicating that only its own, as yet unannounced, plan should be considered. Government measures to correct labor practices have thus taken a back seat to party organization, and party organi-

* Accidents designating unions are based on the language of reports.

ization is becoming the occasion for denying labor rights. It is too soon to make a clear judgment about Guatemala's labor rights policies. Its status on the GSP list should remain under review.

HAITI

The AFL-CIO says:

Remove from GSP list ☐

Postpone decision pending further review ☒

Possibilities for the development of a free and democratic trade union in Haiti have taken on new life since the fall of the corrupt authoritarian dictator, Jean-Claude Duvalier, in January 1986. While labor organizing is increasing under the current military junta, the country faces chaos, poverty and strife that make the prospect for a vibrant free trade union movement tenuous at best. There is little there in the way of unions to begin with, owing to a series of repressive moves begun in 1979-80 by the deposed dictator. Few labor agreements have been signed even since Duvalier left, simply because there aren't many unions well enough organized to win them.

While today is better than yesterday for trade unions in Haiti, the future they face is by no means rosy. Just recently more than 200 workers were summarily fired for organizing by a number of different companies, and the government has not yet reacted to these violations of the labor code. Some labor leaders who have come to Washington to study at the George Meany Labor Studies Center have also been fired without cause upon their return. Labor law reform has been promised (under the Duvalier regime, the government prescribed specific conditions for organizing, maintained broad supervisory powers and could invoke compulsory arbitration in strike situations), but as yet circumstances are too chaotic for any progress to have been made.

The AFL-CIO is aware that the provisional government of Haiti has called for a constitutional assembly and a future democratic course but these goals are not yet realized. Until such time as they are, the Haitian case should be under constant review until the future course of Haiti becomes clear.

NICARAGUA

The AFL-CIO says:

Remove from GSP list ☒

Postpone decision pending further review ☐

While Nicaragua is on the Generalized System of Preferences trade list, currently no trade is taking place with that country because of the U.S. government's imposition of economic sanctions. The AFL-CIO wants Nicaragua off the list whether or not other judgments have brought trade to a halt. Nicaragua's record on labor rights puts it in violation of the U.S. trade law, and now is as good a time as any for that judgment to be made.

Since the Sandinistas came to power in 1979, the government has insisted that all trade unions belong to one official labor center, the Central Sandinista de Trabajadores (CST). Various forms of interference in all types of union activities—elections, affiliations, finances—have been used to shore up the CST and eliminate most democratic opposition. Beyond this, the Sandinistas have resorted to arrests, layoffs, jailings, and the occupation of independent union offices. Two small and struggling unions have managed to survive despite these extensive pressures, the Confederation of Trade Union Unification (CIUS) and the Christian Democratic oriented union, the Confederation of Nicaraguan Workers.

The list of specific repressive incidents the AFL-CIO presented in 1985 was a long one. It included specific examples with names and dates of forcible occupations of union offices, which include shooting them up, rifling files, destruction of furniture, stealing funds and mob attacks, arrests, interrogations and indefinite detention of union leaders, including bombing the homes of some; the invalidation of union elections where non-Sandinista candidates won; mob attacks at independent union events and ceremonies; denial of travel permits and the confiscation of passports of union leaders; and police stoppage of peaceful demonstrations.

There has been no letup to these repressions. Recently the AFL-CIO has been supplied with an up-to-date list of repressive acts, including the arrest



Haitians rejoice following the ouster of the dictator, Jean-Claude Duvalier. But the outlook for workers in Haiti is by no means rosy.

and detention, without charge, of five members of the Peasant Union of Posoltega, Chinandega. They have been accused of criminal acts, but no proof has been submitted. The monthly publication of the CIUS, *Solidaridad*, has been indefinitely suspended by the Ministry of the Interior since last year and 200 workers from La Prensa have been laid off because of the government's closure of that newspaper.

Government actions to deny independent trade unions the right to function come against a backdrop of an economy in chaos, where disproportionate amounts of public money go to shore up the maintenance of a large military force, where poverty is pervasive and few health and safety measures exist to protect workers. Child labor is widespread.

Nicaragua should come off the GSP list because of its labor practices, whether or not there is ever again reason to resume trade on other grounds.

PARAGUAY

The AFL-CIO says:

Remove from GSP list ☒

Postpone decision pending further review ☐

There is only one legally recognized union central in the Paraguay of Gen. Alfredo Stroessner, the longest reigning dictator in the hemisphere. The Confederation of Paraguayan Workers (CPT) serves the Stroessner regime, but has few members and does not engage in real trade union activity. Strikes are illegal and attempts to organize unions outside the official CPT structure are constantly thwarted. A pattern of refusal to recognize democratic unions persists and often workers who attempt to organize them are usually fired.

The government's successful control strategy includes not only a bogus union and government agencies responsible for labor affairs, but also a labor section of the police affiliated to the military intelligence apparatus. The "policia obrera" can easily deny a fledgling union the right to meet, or break up a meeting if things get that far, although union leaders are frequently arrested before meetings even occur. The last two years have brought such arrests in the transport, steel, construction, agriculture and commercial sectors. Mass firings have been instigated by the Ministry of Justice and Labor, a practice used recently in the textile glass, bankworkers, woodworkers and beverages sectors. This same ministry can also deny union registration and the official credentials that companies can require of a union before they negotiate. Only pro-

government CPT leaders get such credentials.

Public employees have no right to organize. Special conditions apply to other sectors, severely circumscribing the right to strike in "strategic" industries, for example. No legal strike has taken place in Paraguay since 1958. Legal minimum labor standards for hours of work, wages, social security, etc. are broadly ignored.

Trying to compete with the CPT, the Movimiento Inter-Sindical de Trabajadores (MIT)—an independent union that has been harassed every step of the way. A number of affiliates the MIT tried to organize recently were denied legal recognition by the government. Its May Day 1986 demonstration was violently stopped by the pro-Stroessner Colorado Party's urban guards who beat and gassed demonstrators and arrested a number of leaders.

The government of Paraguay is reportedly now talking up various promises to loosen current anti-labor practices, though apparently the form some of this takes is hardly serious. While any response at all may be a sign that foreign pressure is embarrassing the government into some kind of stopgap reaction, no moves have been made yet, and even these contemplated sound meaningless. Paraguay should be removed from the GSP list.

PHILIPPINES

The AFL-CIO says:

Remove from GSP list ☐

Postpone decision pending further review ☒

While hopes that the new Aquino government will foster basic trade union rights have risen dramatically in The Philippines since the AFL-CIO first testified on this question in June 1985, serious problems remain. The new government is developing a legal framework for labor worker representation, but not all of its steps are consistent with a pro-labor philosophy.

For example, as promised, the Aquino government has announced new guidelines for labor relations that greatly improve upon the restrictive measures supported by the Marcos regime. Among the pluses are:

- Revocation of measures that had allowed management to replace striking workers who defy return-to-work orders.
- Alteration of the old rule requiring two-thirds for a strike vote in favor of a simple majority.
- A reduction in the percentage of workers needed to petition for a recognition election from 30 percent to 20 percent.

The recently drafted Philippine Constitution has provisions for the right to strike and grants public employees the right to organize. But the Constitution still must be accepted by referendum and there are still other negatives to be corrected. One unfortunate holdover from the Marcos Administration is the Labor Ministry's right to grant exceptions to minimum wage requirements.

Strides have clearly been made of late in the Philippines, enough so that it would be unfair to argue for that nation's immediate exclusion from the GSP list. But it is too early to tell if new-found trade union rights will survive and if new regulations will be administered fairly. Besides, there are rights that remain to be granted. Retention of the Philippines on the GSP list should not constitute a final judgement on the matter. Its case should be left open pending further review.

ROMANIA

The AFL-CIO says:

Remove from GSP list ☒

Postpone decision pending further review ☐

The Romanian government and its ruling party totally dominate the life of that country's labor organizations. Together they have snuffed out nascent efforts to organize independent unions, and then falsely denied their actions.

In its original case against Romania, the AFL-CIO argued that government and party control of the trade union movement constitutes denial of the basic trade union rights of freedom of association and the right to organize and bargain collectively. The AFL-CIO also pointed out that work is not a matter of choice in Romania but is a constitutional "duty"; moreover, the nation's "parasitism" laws make it a crime to be unemployed. The AFL-CIO arguments are largely supported by documentation from the International Labor Organization's (ILO) Committee of Experts on the Application of Con-

ventions & Recommendations, and its Freedom of Association Committee, among others.

The most dramatic historic example of the suffocating effects of this control is the suppression of an effort to organize the Free Trade Union of Workers in Romania (SLOMR) in the late 1970s and early 1980s. The ILO chronicles an endless series of failures on the part of the Romanian government to respond to requests for information on the SLOMR trade union case, particularly with respect to the charge that union leaders and members had been beaten, arrested, exiled, interned in psychiatric hospitals and issued summary sentences. Only after the ILO committee urged that a direct-contact mission go into Romania to investigate did the Romanian government bother even to respond.

The response was predictable—that 99 percent of the workers are in an official union; that few of the alleged organizers of SLOMR could be found; that the charges about individual arrests and jailings were inaccurate; and that to the extent that SLOMR existed at all, it functioned as a human rights committee and not a trade union.

Romania has offered an equally defensive explanation to the U.S. government's GSP review team. It also dismissed the fate of SLOMR by deliberately misrepresenting conclusions of the ILO's Committee on Freedom of Association.

Despite Romania's promises to the ILO that new labor legislation is in the offing, the situation has actually deteriorated. In September of 1985 a new law was promulgated extending compulsory labor provisions beyond the earlier limit of 50 for women and 55 for men to cover workers of all ages. "Working people's control teams," an institutionalized system of amateur informants and investigators who cooperate with the state security personnel, have been revised and now engage in intensified surveillance. New efforts at resistance have brought additional repression. Protests and demonstrations toward the end of 1985 resulted in the arrest of many who were supporting a reduced work week, a minimum wage and the elimination of compulsory labor.

The government of Romania is an unrepentant trade union rights violator richly deserving of removal from the preferential trade list. Any fair reading of the new provision of the U.S. trade law would mandate that this be done immediately.

SOUTH KOREA

The AFL-CIO says:

Remove from GSP list ☒

Postpone decision pending further review ☐

Today South Korea has a growing economy, a foreign trade surplus, a soaring export market and is now among the world's top trading nations. Yet recent outbursts of political dissent indicate that the sacrifices in political freedom and standards of living for the masses may not be tolerated forever. The government of Chun Doo-hwan continues to insist, contrary to the facts, that basic freedoms exist and that unions are able to play a truly representative role.

Despite its claims to the contrary, the "economic miracle" of the Republic of Korea has been built on the backs of men and women working among the longest hours in the world, workers who suffer increasingly from work-related diseases. Although labor laws purport to permit free and independent unions, in reality the labor relations system is dominated by the government. Unions play a role closely monitored and controlled by official watch dogs.

Although current constitutional guarantees purport to grant the basic right of association and collective bargaining, in reality labor practices work to the detriment of workers and the organizations trying to represent them. All unions within a sector are required to affiliate to a single federation. Sixteen federations form the Federation of Korean Trade Unions (FKTU), a centralized organization constantly scrutinized by government. When they seek to act as genuine advocates for workers, local unions can be disbanded or taken over by companies while government looks the other way. The constitutional guarantees, such as they are, do not cover public employees, or those in defense-related industries, public utilities and other select industries "that exercise great influence on the national economy."

Private gonn squads and security forces generally have free rein to harass workers. Government intelligence agents are also given to intimidation and bribery. Supposedly neutral labor committees and theoretically representative management councils are under the government's thumb. Job actions, strikes and demonstrations can result in jailing and

violence. Wage guidelines are government-set. There is no minimum wage. The work week, even by the government's own reports, averages 54.4 hours in the manufacturing sector. The law requiring overtime pay is not enforced. Occupational diseases and accidents are on the rise.

Since the labor-law revisions of 1980, labor organizations have faced additional curtailments resulting from intensified government pressure. Numerous top leaders have been forced to resign their positions because of government hostility to their tactical positions. Hundreds of union activists have been expelled from union membership or lost their jobs. Others have been blacklisted.

Strikes might as well be illegal because of the impossible bureaucratic process required to gain official approval. Unions can operate only in establishments of more than 30 workers. With 80 percent of Korean workplaces operating with fewer than 30 workers, union membership is therefore illegal for most. With few exceptions, only plant-by-plant collective bargaining is allowed, thus minimizing organizational consolidation and preventing company-wide or industry-wide representation at the table. In fact, a "third party intervention" prohibition explicitly formalizes this structure. Unions cannot give funds to political parties (employers' associations can). With all this, it is no surprise that union membership plummeted by more than 300,000 (nearly 30 percent) in the aftermath of the 1980 "labor law revision."

Several specific incidents illustrate just how the Republic of Korea is a labor rights violator:

- In the spring of 1985 eight leaders of a Daewoo Motor union were arrested and put on trial for their leadership of a strike. Some who protested the arrest were also seized. Efforts of metal workers to organize a Dong-Il Steel plant resulted in government refusal in 1985 to certify the registration papers. More than ten similar cases are well known.

- The Chongkye Garments Workers Union, attempting to represent workers in workplaces with less than 30 employees, has experienced serious government resistance for a decade. The Chongkye union has now been denied recognition. In another instance, workers of the Daewoo Apparel Union were ambushed and beaten upon their return to work after a difficult negotiated settlement was reached. A subsequent sit-in at Daewoo to protest the arrest of union leaders resulted in the arrest of 18 additional workers. In the spring of 1985, 368 workers were dismissed following additional sit-ins.

- Attempting to legitimize its actions with anti-Communist rhetoric, in July of this year the National Police Headquarters organized a special department to investigate "radical" labor leaders and students. Press reports indicate that it will deploy 1,300 police experts.

As the heavy evidence of its labor rights record accumulates, the government of the Republic of South Korea is once again resorting to a familiar tactic. In the final stages of the GSP general review, it has begun to give heavy lip service to promised labor law reforms. Trade unionists have heard these promises before (a minimum wage has been promised since 1983). South Korea should be off the GSP list until its promises are kept and other fundamental rights granted.

SURINAME

The AFL-CIO says:

Remove from GSP list ☒

Postpone decision pending further review ☐

Little has changed with respect to trade union rights in Suriname since the AFL-CIO originally testified in 1984 against this country's GSP beneficiary status. If anything, the situation is worse, as there is now new evidence that the government is trying to gain control over what has been an independent union, De Moederbond.

Trade union freedom in Suriname has been virtually non-existent since the murder of Cyril Daal, president of De Moederbond, in 1982. Daal had called for the democratic elections that had been promised by the country's leader, Desi Bouterse, who took over the country by coup d'état on Feb. 25, 1980. In December 1982, Daal and 14 other union leaders were beaten, tortured and shot at close range. According to reliable accounts Daal was killed by the dictator Bouterse himself.

It is thus hardly surprising that what remains of independent trade unionism (many legitimate leaders fled the country) may be caving in under government pressure. Trade union activity is paralyzed and the climate of government-induced violence has been pervasive. In this context De Moederbond, along with three other major labor groupings in the country, has joined the government's

high council, an official committee that purports to include representatives of various sectors of society. In one recent decision of this committee, a hazardous union strike was condemned by three unions simply because of government declarations that it was endangering the economy.

With what little is left of an independent national labor organization muzzling the government line, and given the murderous history of trade union suppression in Suriname, there can be little reason to overlook its blatant violation of the trade union rights provisions of the GSP law. It should be removed from the preferential list.

TAIWAN

The AFL-CIO says:

Remove from GSP list ☒

Postpone decision pending further review ☐

While numerous statements have been made by the Taiwan government attesting to its intentions to modify existing labor laws, fundamental alterations allowing for greater union freedoms have yet to be realized. While some labor changes have been declared recently, implementation of even these awaits better enforcement mechanisms, suffer penalties against employers, and uniform application that would include export processing zones. Hopefully the recent announcement that martial law will be lifted presents new promise that change will come.

While uncertainty marks the long-term future of both the economy and the Chinese Federation of Labor because of the ongoing political standoff with claims of the People's Republic of China, the Taiwan government and its ruling party, the Kuomintang, have missed the supposed threat of war as a pretext for 37 years of martial law including tight control over the trade union movement. The government's own Dept. of Labor is in reality a part of the Ministry of the Interior, the government agency housing the security police.

The existing martial law means that the government can suspend the right of unions to exist at any time. Operating under the continuing threat of possible extinction puts a permanent damper on the ability of union organizations to function. While approximately 22 percent of Taiwan's work force is organized, few have comprehensive collective bargaining agreements. Instead, issue-by-issue protocols are agreed to in piecemeal fashion. The right to strike is virtually nonexistent and it is illegal to strike for increases in wages. The government keeps a tight hold on the inner workings of unions, forbidding union presidents to run for more than two terms and severely limiting the amount of per capita dues that can go to the national trade union center or to either provincial or industry federations. Workers who serve the government, educational organizations or "munitions" industries cannot join unions.

The Chinese Federation of Labor (CFL) is thus hampered because many of its leaders are preoccupied with maintaining the approval of the KMT, the government and employers. Compounding this weakness is the fact that only those industries that were organized prior to 1949 have nationwide federations because of continuing insistence that any federation must represent workers on the mainland as well as those in Taiwan.

Among the most pressing examples of Taiwan's continuing hostile labor posture is its ongoing refusal to sign a collective bargaining agreement with the Chinese Federation of Postal Workers (for more than 20 years) and recent mine disasters (at least four in the last two years) which killed more than 277 miners. The Taiwanese mines have a fatality rate more than twice that of the United States and its mines are in long-standing violation of fundamental safety regulations. As a consequence of the accidents, the government closed down most of the coal mines, provided special grants to assist miners who wished to be transferred to other employment, and initiated a special safety insurance program for the coal miners. The Chinese Federation of Labor also decided in August 1985 to establish a "labor safety fund" for the benefit of workers in distress.

The government of Taiwan has indicated it may ease up on the regulation of union dues collection and the restrictions on leadership terms of office partly in response to labor reform proposals made in January 1986 by the CFL. But these measures have not yet been taken and many more are necessary. Taiwan has proclaimed its intent to at last lift martial law, but what this will mean for unions remains unclear. Taiwan should be removed from the preferential trade list until promises are kept and major reforms are made.

Mr. PEASE. Thank you very much. I appreciate that comment.

Like you, I was encouraged that the administration did establish that the GSP language on worker rights can appropriately be used, but I was also, like you, disappointed that countries like Chile and South Korea were left off that list. I would only hope that in the future the administration may pay more attention to the testimony that AFL-CIO has given to them.

In that connection, Ambassador Yeutter said last year, or acknowledged, that there was a serious problem with worker rights, and went on to say that the Reagan administration would vigorously pursue redress of this problem in organizing the new GATT round, that is, meetings, I think in September, in Punta del Este, in Uruguay.

Do you have any perspective on how vigorous the administration was at Punta del Este in pursuing worker rights as a negotiating objective in the new round?

Mr. KIRKLAND. Mr. Pease, we had representatives in attendance at that meeting in Punta del Este. We were offered an opportunity to present our views, certainly to Mr. Yeutter. We have done it repeatedly. And he has, from time to time, indicated sympathy with our point of view on this question. We did that again as forcefully as we knew how in Punta del Este.

We were very disappointed in the result and in the absence of any clear-cut statement of that principle in the communique that was issued at Punta del Este.

Mr. PEASE. Again, I thank you.

I have heard the administration say that it was going to pursue worker rights vigorously at Punta del Este, and yet I have yet to find one published record to suggest that the Reagan administration gave this matter the high priority which it claims that it gave.

Would you agree that including this language on worker rights in the bill this year, as we did in H.R. 4800, would strengthen the hand of the administration as it goes into these negotiations for the new GATT round?

Mr. KIRKLAND. Well, sir; I am quite satisfied that had we not had the language in the GSP legislation, that what steps were taken would not have been taken. So I would feel very strongly that nothing further in the area of trade would be forthcoming on the grounds that we think are so important in terms of putting some teeth in internationally agreed standards—not American standards but standards developed through the International Labor Organization. This is should be required in this legislation if we are to advance that principle any further.

Mr. PEASE. Do you view this language as at all protectionist, as some others have claimed?

Mr. KIRKLAND. Well, I would hope, sir; that this committee could liberate itself from the tyranny of words. I do not regard this as protectionist, but counterprotectionist. I regard the practice of a number of countries, too many countries, of abusing workers, of denying them basic rights—I regard that practice and that circumstance and those facts as protectionist. In addition, market access to many of our trading partners leaves much to be desired.

Mr. PEASE. Thank you very much. I think your phrase, hoping that this committee could liberate itself from the tyranny of

words—phrases—is worthy of Thomas Jefferson. I commend you for that.

Chairman ROSTENKOWSKI. Mr. Moody will inquire.

Mr. MOODY. Thank you, Mr. Kirkland, for an excellent presentation. I would appreciate having the summary of your comments, if that is possible.

You agree, I take it from your last comments a minute ago, that the ILO standards might be more appropriate because they are not simply U.S. standards projected to other countries, but these are international?

Mr. KIRKLAND. No. We have never proposed American standards be the criteria. We have consistently said the minimum internationally recognized labor standards—meaning particularly the application of the convention, for example, of 1987, on freedom of association, various conventions against forced labor, child labor, health and safety, and other such provisions that are internationally negotiated—and, incidentally, which every country that is a member of the ILO, by virtue of its membership, acknowledges and accepts—in addition to the further act of ratifying, as most of these countries have, those specific conventions.

Mr. MOODY. It seems we are on a better footing when we engage in international negotiations and refer to some international standard rather than simply our own.

Mr. KIRKLAND. Those are the international standards to which we refer, sir.

Mr. MOODY. Are we in an embarrassing position because of the fact that we, ourselves, have not ratified those ILO standards?

Mr. KIRKLAND. Yes. I am embarrassed by that, and have been for years. We have consistently urged we ratify at least the basic human rights standards that are incorporated in convention 1987 and various other conventions dealing with those simple rights. These are included in our Constitution—the right of freedom of association, et cetera. I do not believe that our ratification of those would, in any significant way, affect American practice or American law. But I do think our failure to do so has put us in a very poor position in arguing effectively for the wider enforcement of those standards elsewhere, and given our adversaries an unnecessary target for criticizing us.

It has also a practical effect. Countries that have not ratified those conventions are foreclosed from filing complaints against other countries on grounds of violating those conventions, this puts us in an awkward position.

There are many circumstances where we would like to be able to go in, since it is a tripartite organization, on a tripartite basis, and press those cases before the committee of experts that reviews compliance. Now, we can do it as a trade union movement through our association with the International Confederation of Free Trade Unions, which has standing there and can press those cases. But we cannot do it through our own Government because our Government has not ratified those conventions. I think it is a standing disgrace.

Mr. MOODY. Have you had a chance to make your views known to the Senate, and perhaps they can—

Mr. KIRKLAND. Yes, sir. I testified on this just last year. In fact, we have been part of a dialog with the administration, with the Department of Labor, with the Department of Commerce, and with the Chamber of Commerce, which has the franchise to represent employers in that body. In 1987 we had an agreement to support two conventions, not including the key convention, Freedom of Association. Here agreement has still not been reached because of the opposition of the employer groups.

The administration has supported ratification of those two very modest conventions. One is a maritime convention, which has no controversy whatever about it in terms of its merits. The other is one on simple endorsement of a tripartite system. It is my understanding the administration has submitted those to the Senate for ratification, and they are wasting away in the Foreign Relations Committee.

Mr. MOODY. Maybe the new momentum on the trade front will help jar those loose. Perhaps the trade implications of those will.

Mr. KIRKLAND. I should hope so. Those particular conventions, as I say, fall far short of what we should do. I am far more interested in seeing the key human rights conventions ratified, primarily the convention of 1987 on Freedom of Association.

Mr. MOODY. Do you know, could the Senate go ahead and ratify those conventions without the administration's backing?

Mr. KIRKLAND. Well, I think technically the administration has to submit the treaty. The convention has the same standing as the treaty.

Mr. MOODY. They are not hanging over from Carter or another administration?

Mr. KIRKLAND. Oh, no. I am not criticizing specifically this administration. This has been hanging through many administrations, Democratic and Republican, for quite a number of years.

Mr. MOODY. It is particularly ironic, since the ILO has almost always been run by an American. It is one of the international organizations where it is more or less agreed that we will have the key personnel.

Mr. KIRKLAND. We had an American Director-General through the administration, Mr. Morse. The last two have been—one was an Englishman, and the current one is French.

Mr. MOODY. Thank you for your comments.

Chairman ROSTENKOWSKI. Mr. Chandler will inquire.

Mr. CHANDLER. Thank you, Mr. Chairman.

Mr. Kirkland, I think you and I obviously agree that poverty and human misery, even when existing in some country out of sight of this one, is no more appealing than it is here. As I study this whole trade issue and the balance that we are trying to accomplish, a question keeps coming back to mind: is it possible for developing countries—I am not talking about Japan and Germany or any unfair trade practices—to develop their economies, and for the workers in those economies to benefit without them doing so at the expense of the developed countries, like the United States, Japan, Germany, and the others? I would appreciate your thoughts on this.

Mr. KIRKLAND. I certainly believe that it is, sir. And I believe that the way to move in that direction is not to enrich a narrow

mercantile class first and trust that at some distant future some of that will find its way down to the masses, but to work from the bottom up to try and enhance the standards and conditions under which the mass of human beings live and labor, and that that will expand the market, expand opportunities for enterprise, give a more balanced pattern of growth.

While sustaining healthy trade, it would bring about a circumstance where those countries simply do not live off of the markets created by other peoples' higher standards of living, but will contribute to the growing world market by broadening the market in their own countries. That, I think, is the only way to get from here to there on a sustainable basis.

Mr. CHANDLER. Do you believe that in the interim it is appropriate for those countries to have, to some degree, protected markets of their own, and that we ought to recognize that?

Mr. KIRKLAND. Well, whether we recognize it or not, they are busily engaged in doing it.

Mr. CHANDLER. We hear the questions about reciprocity that are raised by members of this committee, and appropriately so, because I think about Japan, and obviously it has had very protective markets. I am wondering, did it progress economically from the devastation after World War II at the expense of the United States and the rest of the developed world; or, did it do so concurrent with our own development?

Mr. KIRKLAND. Well, that is—I suppose one could speculate endlessly about that. Certainly, one can only admire the single-minded dedication of Japan toward its own national self-interest and the circumstances it faced after the war, and does today. I simply wish we had a measure of that same sense.

I had a conversation in Paris recently—I chaired a group from the Trade Union Advisory Committee to the OECD at a meeting with government—officials of the OECD countries—and this question of alleged American protectionism and so forth was put to me somewhat in the same context you are describing. And I made the ministers from the various governments there an offer, which I am still prepared to put forward. I would accept as American trade policy the policies actually being pursued by virtually all of the OECD countries other than the United States. I would be quite satisfied with the trade policies of France, Great Britain, Japan, and virtually any of the others. I had no takers, and they changed the subject.

Mr. CHANDLER. It is not likely that you will.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Guarini.

Mr. GUARINI. I want to thank you, Mr. Kirkland, for your support of the private right of action against illegal dumpers. It not only gives redress, but at the same time is a deterrent. And we are in a new environment and a new era, and we can make a new start.

In your statement, I saw that you support the industry advisory group, which is a partnership of labor and government and business; and, of course, that is the direction we should be going. Each of them are equal partners.

Do you favor a trade czar and a better coordination of all the fragmented agencies that participate in trade policy today?

Mr. KIRKLAND. Mr. Guarini, I don't think that gets to the root of our problem. I can't say that I have any deeply ingrained adverse feeling about whatever chart reshuffling, organization chart reshuffling might be done; but I do not regard that as a substitute for squarely addressing the real problems.

I think almost any structure that you can put together, even an existing one, in terms of slots and titles, could be made to work if the will was there. The problem is not the structure. It is a problem of will.

Mr. GUARINI. Let me ask you, as an equal partner, is there any program that labor is developing to make us more competitive? Are they spending any moneys on education, promotion? Is there any thrust of their own? Are there any labor negotiations with industries to make them more updated and more competitive? Is there a program other than "Buy American" that labor is out there advocating as an equal partner?

Mr. KIRKLAND. Oh, yes; there are numbers of approaches that we are a part of. We operate and administer a substantial number of training programs. We have a structure within the federation called the Human Resources Development Institute that carries out much of our activity in that field. It is quite extensive, as well as the individual training programs, apprenticeship and job training, Job Corps and others that we exercise responsibilities for, either directly or jointly with management.

Mr. GUARINI. I can foresee future negotiations where labor itself would be very interested in seeing that the technology of an industry is updated or that they become more competitive; that they do their share.

Mr. KIRKLAND. Yes.

I would remind you, sir, that was part of the very recent steel negotiations where we sought commitments across the bargaining table for investment in upgraded and improved facilities, in order to enable some of those facilities to stay open.

Mr. GUARINI. That is a step in the right direction, certainly.

Let me just move on to GSP. There are many countries that go GSP, like Taiwan, Hong Kong, Korea, and others, that have large trade balances and have increased their standards of living considerably.

Do you think that GSP should be more restricted or that it should be eliminated? What is labor's position concerning the way GSP is currently run?

Mr. KIRKLAND. Well, we believe that as countries do develop their economies and become strong competitors in the international market should be graduated from that list. That is not a list of countries that should be on there in perpetuity.

Mr. GUARINI. Do you think we are being overgenerous with GSP the way it is being operated today?

Mr. KIRKLAND. To a degree, yes, sir.

Mr. GUARINI. Do you agree with our having free trade with many of these countries as we went into a free trade with Israel and are now negotiating with Canada? Do you feel that this is a direction that our trade policy and strategy should be placed in?

Mr. KIRKLAND. No, sir.

Mr. GUARINI. Could you expand on that, sir?

Mr. KIRKLAND. Well, I think it is odd when you talk about free trade as a goal in the world at-large, which subject to definition philosophically we share, but then we negotiate free trade agreements which seem to benefit our trading partners more than us. We have—and we have supported trade agreements governing particular products with those countries.

With Canada, we have been living with an auto-reciprocal agreement for some time. But we would want to take a long, hard look at the effects of such preferential approaches.

Mr. GUARINI. Do you agree with the basic premise that trade is the currency of peace?

Mr. KIRKLAND. It is probably one of the currencies of peace.

Mr. GUARINI. Thank you very much, sir.

Chairman ROSTENKOWSKI. Mr. Crane.

Mr. KIRKLAND. Excuse me, sir.

It didn't stop World War II.

Mr. GUARINI. Protectionism didn't help, either.

Mr. KIRKLAND. Well, there is a substantial argument that would say that the arguments of unfettered commerce with Nazi Germany was one of the considerations that led us to Munich.

Mr. GUARINI. But Smoot-Hawley probably did its own share of participating in what happened in World War II, I assume.

Thank you, sir.

Chairman ROSTENKOWSKI. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman.

Congratulations, Mr. Kirkland, for your outstanding testimony. A couple of questions pertaining to issues raised in your remarks.

One of these has to do with the productivity levels in this country. For 35 years we haven't even kept pace with Great Britain, of all countries, with all the problems they have over there. Of course, countries like Japan and West Germany have vastly outstripped us in annual productivity increases.

Do you feel that some of the alterations that we made in the Tax Code of last year will enhance or diminish the prospect of increasing U.S. productivity? I am thinking specifically of such things as investment tax credit repeal, our altered treatment of depreciation, what we did with IRA's, 401(k)'s, increasing capital gains taxes.

Is that, in your estimation, calculated to help or potentially hurt?

Mr. KIRKLAND. In the first place, the fact remains that the productivity of the American workforce is still the highest in the world. It is true that the rate of increase of other countries, many other countries, has surpassed the rate of increase in this country. But those rates have proceeded from a lower base.

The productivity of the American worker is very much higher than—remains today still much higher than that of the English worker. It is higher than the Japanese. So, the absolute level of our productivity has not been a cause of the difficulties that we have been having or the vast increase in the trade deficit.

The use of the term "labor productivity," of course, is simply a matter of convenience. It does not imply differential degrees of effort or devotion or the work effort on the part of individual work-

ing people. It is simply a handy standard to measure a complex process which involves, one could easily just as much say, the productivity of capital equipment.

As far as the effect of the tax bill, I doubt that you could trace any correlation between the elements of the previous tax system and the future tax system as having a vast bearing on this trade question.

Mr. CRANE. Well, except in the area of, for example, capital formation, cost of capital. Every econometric run that was done on the tax bill of last year indicated that the cost to capital, at least in the short term, is going to increase quite considerably as a direct result of the tax bill.

Mr. KIRKLAND. You mean the after-tax cost.

Mr. CRANE. Yes.

And it seems that that is moving contrary to what we are trying to do in terms of providing the kind of stimulus on the economy that is designed to enhance our trade position worldwide, and hopefully diminish our trade deficit.

Mr. KIRKLAND. Sir, I have to confess I have some difficulty with that concept of cost of capital being the central problem. In the past few years, lower interest rates have made capital readily available, but our trade problems have increased.

Mr. CRANE. Do you share the concern that many have over educational levels? I am thinking specifically of the illiteracy rights that we have in this country. We have spent more money in the post-World War II era on education than the world spent on it prior to World War II and have reached that exulted state where we teach remedial reading at the college and university level.

The competency levels of our students being educated today, in our educational institutions—especially in science and math—are below some of our leading trading partners.

Do you see that as one of the problems that has contributed to slow growth rates here in the United States? And does it portend worse things in the future to you?

Mr. KIRKLAND. I will give you a little more complicated answer to that question than you might be looking for, sir.

Of course, we have a long historic record of strong support for the best possible public education system. We are strongly committed to the proposition that, as a basic right, every young person born should have access to as high a level of education as he can possibly usefully absorb. And that continues to be our position for a variety of reasons, having nothing to do with the economic issue of trade competitiveness, or little to do with it.

The situation that you describe is also, I think, the pride of this country. We have been the country that offered refuge to the oppressed, to the disadvantaged. We have been the goal of the poor and the jobless in other parts of the world.

The permeability of our immigration system has been demonstrably great. We have absorbed extraordinary numbers of people from all over the world who are not typically from the privileged classes.

We are a heterogeneous society, I don't think it is very meaningful to compare our relative levels of educational attainment with those of Japan, which follows very restrictive immigration policies

and strives, as a matter of national policy, to maintain a homogeneous population.

Mr. CRANE. If you will yield on that point——

Mr. KIRKLAND. That is true of a number of other countries.

Mr. CRANE. It is, but one of the remarkable and observable phenomena is that amongst the most recent immigrants you find the highest levels of achievement in the United States. That is, I think, recognition of the opportunities that exist here.

I don't think one can look at those educational accomplishments or performance levels and really rationalize the deficiencies in terms of recent immigrants.

They have been one of the ongoing sources of strength and pride. As I say, you look at some of these kids that have come over here within the last several years, refugees from all over the world. They are amongst the highest achievers.

Mr. KIRKLAND. That is certainly true of the Asiatic immigration, sir.

Chairman ROSTENKOWSKI. Thank you very much, Mr. Kirkland.

I don't believe there are any more members with questions. We certainly appreciate your sharing your views with us.

Mr. KIRKLAND. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Sells.

Thank you, Mr. Sells, for joining us. I want to express my appreciation for your patience. We really appreciate the fact that you are taking time out of your business schedule to join us and give us the benefit of your views and those of the federation that you represent.

Having said that, the committee is ready to take your testimony.

STATEMENT OF BOAKE A. SELLS, PRESIDENT, DAYTON HUDSON CORP., MEMBER OF THE EXECUTIVE COMMITTEE, RETAIL INDUSTRY TRADE ACTION COALITION, AND MEMBER OF THE BOARD, AMERICAN RETAIL FEDERATION, ACCOMPANIED BY FRANK SAMOLIS, COUNSEL

Mr. SELLS. Thank you, Mr. Chairman.

I am Boake Sells, president and chief operating officer of the Dayton Hudson Corp. I appear today as a member of the board of directors of the American Retail Federation and as a member of the executive committee of the Retail Industry Trade Action Coalition, or RITAC.

I am accompanied by Frank R. Samolis of Patton, Boggs & Blow, counsel to RITAC. On behalf of the business community, we appreciate your invitation to share our thoughts about the formulation of U.S. trade policy as part of the effort underway to draft comprehensive trade legislation.

I will summarize my prepared remarks.

Chairman ROSTENKOWSKI. Your entire statement will be included in the record.

Mr. SELLS. Dayton Hudson operates 482 stores in 33 States. We have over 120,000 employees striving to bring our customers the best value for their shopping dollars. We operate Target discount stores in 22 States, Mervyn's promotional department stores in 12 States, Hudson's and Dayton's department stores in 7 States, Lech-

mere hardlines specialty stores in 6 States, and Branden's home specialty stores in 2 States. In all, 20 members of this committee have Dayton Hudson stores and employees in their districts.

Retailers are a major industry in the country, employing 16 million people or roughly 15 percent of the American workforce. Our annual sales of over \$1 trillion constitute a third of the Nation's gross national product. Because we make a substantial contribution to the health of the economy, retailers have a major stake in the formulation of U.S. trade policy.

We are particularly pleased that this committee chose a representative of the retail industry to speak on behalf of American business. Retailers have a nationwide presence. We are in every city and town, from the largest metropolis to the smallest village. The general store, the local car dealer, the corner grocery store, and the downtown department store are all part of the retail industry—an industry which every family in the country knows and does business with on a regular basis.

We in retailing have much in common with you in the Congress. Our customers are your constituents. They are housewives, working women, and teenagers. But they are also auto workers, steel workers, and textile and apparel workers. When they are unemployed, we suffer. When our towns and communities are depressed, we feel the consequences. Like you, we share the goal of ensuring that they have jobs and that their—our—communities thrive.

To remain competitive, however, retailers must find merchandise that offers value to the American consumer, at a price they can afford to pay. We have no preference for imports over domestically produced goods. In fact, when we finish shopping the world's markets, 70 to 80 percent of the time we find what we are looking for right here in the United States.

When domestic sources of supply are unavailable, overseas manufacturers help us meet customer demand. Merchandise is purchased abroad to add value and choice for the American consumer.

We operate in a fiercely competitive business. Retailers must constantly innovate to compete effectively. No Federal guarantees, bailouts, or guaranteed markets protect retailers. Those who can not thrive in this environment do not survive. It is that simple. I am sure you remember W.T. Grant, Korvettes, and Robert Hall. When retailers, even large ones, don't improve their productivity, they disappear.

We are committed to open and expanding international trade. We want a trade bill this year that does that. As we in business, labor, and government assume the challenge of developing trade policies that will guide us through the remainder of this decade and into the next, we hope you will keep in mind the policies that have allowed us to prosper since World War II.

Our Nation's commitment to free and fair trade has led to a worldwide explosion in growth enjoyed at home and abroad. Without our commitment and effective leadership, we would all be much poorer.

As just one example, our successful efforts to lower tariffs have raised employment and living standards throughout the world. Now we must recommit ourselves to expanding world trade through the development of positive trade legislation.

In doing so, we must not take the easy route and blame all of our ills on foreigners. We, not they, have produced a Federal budget deficit of magnitudes unknown in history. We, not they, have failed to develop programs to foster exports. We, not they, have in too many cases failed to improve the productivity of our capital and labor when measured against the competition.

We must take responsibility for our actions, admit that many of our trade woes are self-induced, and begin the formidable task of formulating a coherent bipartisan trade policy. We in the business community must accept our responsibility to be innovative in our business methods, to develop new products, and to increase our marketing efforts.

But the Congress has a vital role to play as well. Along with the administration, it must establish a world trading environment in which export opportunities increase for all.

Mr. Chairman and members of the committee, I want to make four major points today.

First, the Congress must avoid the temptation to pass sector-specific legislation. Industries that receive protection more often than not fail to adjust to changing circumstances. In the process, consumers lose twice. They are forced to pay ever higher prices for goods, and they have fewer alternatives to choose from.

Perhaps worst of all, foreign interests benefit at the expense of our customers. For example, the Japanese would not have just renewed the voluntary restraint agreement on automobiles if they did not expect to gain financially. We hope that you will recognize that not every group pleading for protection needs it.

The 1986 and forecast 1987 profits in the textile industry are vivid examples of this. Just as the United States should be no patsy for our trade partners, we should also be no patsy for every group demanding sector-specific relief.

Second, we support programs aimed at helping workers, industries, and communities to adjust. We don't look at job losses as mere statistics. We see a loss of livelihoods and the energies of our communities. We see our customers without work, without a chance to maintain a lifestyle developed through a lifetime of hard work.

The Government does have a role to play in adjustment assistance—a major role. But the emphasis must be on real adjustment. If the Government is going to provide assistance, workers, industries, and communities must do their part to adjust. Like Chrysler, in return for assistance, they must make commitments, honor them, and accept change in return for the help they receive. Assistance must not continue to be a means to avoid adjusting to change.

Third, the Congress must delegate to the President broad negotiating authority for the Uruguay Round of Multilateral Trade Negotiations. We recognize that the Congress has an important role to play in these negotiations and, along with the private sector, will be active in the formulation of our trade negotiating objectives.

Unless we provide the President with broad negotiating authority, however, we cannot hope to accomplish our overriding objective of expanding world trade. In developing positive trade legislation aimed at fostering exports and expanding world trade, we must

give the President the authority needed to advance the national interest.

Finally, we must remain resolute in our efforts to open foreign markets to our goods. Excessive and unwarranted trade surpluses are unacceptable, as are discriminatory and unfair actions by our trading partners.

We will energetically support legislation aimed at ensuring our industries have access to foreign markets. In my written statement, I address some of our specific concerns about trade proposals such as H.R. 3. I also set forth further suggestions for improving the formulation of trade policy.

Again, we appreciate this opportunity to appear on behalf of the business community and look forward to any questions you might have.

Chairman ROSTENKOWSKI. Thank you, Mr. Sells.

[The prepared statement and subsequently received letter enclosing a supplemental statement follow:]

STATEMENT OF BOAKE A. SELLS, PRESIDENT AND CHIEF OPERATING
OFFICER, DAYTON HUDSON CORPORATION, APPEARING ON BEHALF
OF THE RETAIL INDUSTRY TRADE ACTION COALITION (RITAC)

Mr. Chairman and Members of the Committee,

I am Boake Sells, President and Chief Operating Officer of the Dayton Hudson Corporation. I appear today as a Member of the Board of Directors of the American Retail Federation and as a Member of the Executive Committee of the Retail Industry Trade Action Coalition (RITAC). I am accompanied by Frank R. Samolis of Patton, Boggs & Blow, counsel to RITAC. On behalf of the business community, we appreciate your invitation to share our thoughts about the formulation of U.S. trade policy as part of the effort underway to draft comprehensive trade legislation.

We operate 482 stores in 33 states. We have over 120,000 employees striving to bring our customers the best value for their shopping dollars. We operate Target discount stores in 22 states, Mervyn's promotional department stores in 12 states, Hudson's and Dayton's department stores in 7 states, Lechmere hardlines specialty stores in 6 states, and Branden's home speciality stores in 2 states.

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We are particularly pleased that this Committee chose a representative of the retail industry to speak on behalf of American business. Retailers have a nation-wide presence. We are in every city and town, from the Deep South to the West Coast to the Great Midwest. The general store, the local car dealer, the corner grocery store, and the downtown department store all are part of the retail industry--an industry which every family in the country knows and does business with on a regular basis.

We in retailing have much in common with you in the Congress. Our customers are your constituents. They are housewives, working women, and teenagers. But they are also auto workers, steel workers, and textile and apparel workers. When they are unemployed, we suffer. When their towns and communities are depressed, we feel the consequences. Like you, we share the goal of ensuring that they have jobs and that their communities thrive.

To remain competitive, retailers must find merchandise that offers value to the American consumer, at a price they can afford to pay. We have no preference for imports over domestically produced goods. In fact, when we shop the world's markets, 70 to 80 percent of the time we find what we're looking for right here in the United States. When domestic sources of supply are unavailable, overseas manufacturers often help us meet customer demand. Merchandise purchased abroad adds variety, value, and choice for the American consumer.

We operate in a fiercely competitive business. Retailers must constantly innovate to compete effectively. No federal guarantees, bail-outs, or guaranteed markets protect retailers. Those who cannot thrive in this environment do not survive. It's that simple. Companies that fail to keep up with the times, including Grant's, Korvettes, and Robert Hall--once household names--have found they cannot get by on past reputation alone. The dry goods store and the five and dime have given way to stores which provide today's customers with value and quality.

We are committed to open and expanding international trade. In our highly competitive industry, we need access to foreign merchandise to meet our customers' demands and needs. More important, an open international trading system will create the growth and opportunities needed to revitalize our economy and

to provide jobs for all Americans. We must maintain America's commitment to free and fair trade to maintain the health of the world trading system.

AN OVERVIEW

As this Congress embarks on a major review of U.S. trade policy, I would like to inject a word of caution: tinkering with our trade laws will not remedy our trade problems. We cannot legislate away the trade deficit any more than we can legislate an increase in American productivity. What we can do is fashion a bill that provides the right tools and creates a framework for the future. Beyond that, it's up to us--American business and labor--to make the system work to our benefit.

Mr. Chairman and Members of the Committee, I want to stress four points today. First, the Congress must avoid the temptation to pass sector-specific legislation. Industries that receive protection more often than not fail to adjust to changing circumstances. Consumers lose twice. They are forced to pay ever-higher prices for goods and they have fewer alternatives to choose from. Perhaps worst of all, foreign interests benefit at the expense of our customers. For example, the Japanese would not have just renewed the voluntary restraint agreement on automobiles if they did not expect to gain financially. We hope that you will recognize that not every group pleading for protection needs it. Just as the United States should be no trade patsy for our partners, we should also be no patsy for every group demanding sector-specific relief.

We recognize that trade law means trade politics. Our legislative process depends on compromises. As you are pressed to provide sector-specific help, we ask that you scrutinize closely the claims of groups pleading for relief from foreign competitors. A trade bill responsive to every demand cannot provide a meaningful basis for coping with the challenges of this and our next decade. Moreover, to the extent that you help particular interest groups, the nation as a whole will suffer. We ask that you recognize the tradeoffs.

Second, we support programs aimed at helping workers, industries, and communities to adjust. We don't look at job losses as mere statistics. We see a loss of livelihoods and the energies of our communities. We see our customers without work, without a chance to maintain a lifestyle developed through a lifetime of hard work. The government does have a role to play in adjustment assistance. But the emphasis must be on adjustment. If the government is going to provide assistance, workers, industries, and communities must do their part to adjust. Like Chrysler, they must make commitments, honor them, and provide something in return for the help they receive. Assistance must not continue to be an excuse to avoid adjusting to change.

Third, the Congress must delegate to the President broad negotiating authority for the Uruguay Round of Multilateral Trade Negotiations. We recognize that the Congress has an important role to play in these negotiations and, along with the private sector, will be active in the formulation of our trade negotiating objectives. Unless we provide the President with broad negotiating authority, we cannot hope to accomplish our overriding objective of expanding world trade. In developing positive trade legislation aimed at fostering exports and expanding world trade, we must give the President the authority needed to advance the national interest.

Finally, we must remain resolute in our efforts to open foreign markets to our goods. Excessive and unwarranted trade

surpluses are unacceptable as are discriminatory and unfair actions by our trading partners. We support legislation aimed at ensuring our industries have access to foreign markets.

AMERICAN COMMITMENT TO EXPANDING WORLD TRADE

As we in business, labor, and government assume the challenge to develop trade policies that will guide us through the remainder of this decade and into the next, we hope you will keep in mind the policies that have allowed us to prosper since World War II. Our nation's commitment to free and fair trade led to a world-wide explosion in growth, enjoyed at home and abroad. Without our commitment and effective leadership, we all would be much poorer. As just one example, our successful efforts to lower tariffs have raised employment and living standards throughout the world. As we face a world rocked by rapidly changing technology, trade patterns, and capital flows, we must recommit ourselves to expanding world trade through the development of positive trade legislation.

As retailers, we vitally depend on the health of the world trading system. Our customers--your constituents--rely on the output of other nations. We must not take the easy route and blame all of our ills on foreigners. We, not they, have produced a federal budget deficit of magnitudes unknown in history. We, not they, have failed to develop programs to foster exports. We must take responsibility for our actions, admit that many of our trade woes are self-induced, and begin the formidable task of formulating a coherent, bipartisan trade policy. We in the business community accept our responsibility to innovate, to develop new products, and to increase our marketing efforts. But the Congress has a vital role to play. Along with the Administration, it must establish a world trading environment in which export opportunities increase for all.

Our system has served as the model for development in third-world markets. Many of you will remember the address by Prime Minister Lee of Singapore to a joint session of Congress in October of 1985. The Prime Minister implored America not to abandon the struggle for democracy and free markets, to give people everywhere an incentive to reject communism and controlled economies. If the United States loses the will to maintain open and fair trade, he warned, putting up trade barriers will soon not be enough. America will have to become a policeman, enforcing order over her sphere of influence in the world. As he so eloquently concluded, "[a] replay of the depression of the 1930's which led to World War II would be ruinous for all. All major powers in the West share this responsibility for not repeating that mistake. But America has the primary responsibility, for she is the anchor of the free market economies of the world."

Our huge foreign trade deficit is not a symptom of weak or ineffective trade laws. It is the product of the federal budget deficit, a strong dollar, faster economic growth in the United States than abroad, the enormous LDC debt, and foreign trade restrictions. The trade deficit also reflects the efforts of our multinational enterprises to compete worldwide. In 1985, roughly 15 percent of our imports or \$80 billion in value came not from Japanese, German, or Korean owned companies, but from foreign affiliates of U.S. companies.

We must remain resolute in our efforts to open foreign markets to our goods. Excessive and unwarranted trade surpluses are unacceptable. We support legislation aimed at ensuring our industries have access to foreign markets.

We cannot solve our trade problems merely by gaining access to other markets. Foreign trade barriers only add roughly \$10 to \$20 billion to our foreign trade deficit. We must not erect our own barriers to trade, for that will only compound our problems. They are more fundamental and will not be solved with trade law tinkering. They took years to grow out of control and will take time and concerted action to redress.

Through its leadership, the United States must develop a domestic and international framework of comprehensive measures designed to expand world trade. As part of this effort, we must bring the federal deficit under control. As Federal Reserve Chairman Volcker warned on Monday, if the trade deficit and matching inflow of capital begin to shrink but the budget deficit does not, growth, lower interest rates, and price stability will be jeopardized.

We cannot hope to accomplish these objectives if we are erecting barriers to trade or purporting merely to fine tune our trade laws. As part of the launching of the Uruguay Round, we and the other nations in the GATT agreed to a "standstill and rollback" of trade barriers. We cannot expect others to meet their obligations if we cavalierly ignore our own obligations.

Unfortunately, the GATT is in danger of becoming an anachronism. It moves with such glacial speed in resolving trade disputes that "dispute resolution" in the GATT has become an oxymoron. We know you share our desire to strengthen the mechanisms necessary to resolve trade disputes. We also share your desire to strengthen the multilateral trade system.

I was in Geneva this past summer as Chairman of the MFA Negotiations Task Force of RITAC. As an American businessman, I can tell you of my frustration dealing with the GATT bureaucracy. Those of us who seek results cannot imagine how such a system can be allowed to function in this way. But let's not abandon the GATT. Rather, let us strive to make it relevant. Let us give it the authority to resolve disputes, quickly, and to enforce judgments. Moreover, let us also review some of its guiding principles. Perhaps the time has come to abandon some possibly outmoded legalisms that hamstring the GATT. Perhaps certain trade actions should be taken on a selective basis, to punish guilty trading nations but not innocent bystanders. That may help other nations to appreciate the importance of sharing with us in the effort to expand world trade for everyone, not just them.

The Uruguay Round will be critical for sustaining the historic American-led effort to liberalize world trade. As important, it will provide us with an opportunity to develop new rules to govern trade in services and investment, to protect and foster exchanges of intellectual property, and thus to promote our overall effort to expand world markets. Only through strengthening the multilateral system can we address systemic causes of trade problems and develop adjustment mechanisms to avoid the trade imbalances that currently distort trade. Just as all past multilateral negotiations succeeded only as a result of U.S. leadership, so too can the Uruguay Round accomplish these vaunted objectives only with American support and guidance. For that reason, as I note below, we must provide the Administration with broad flexibility to exercise that leadership role.

In the process of expanding world trade, we recognize that the United States economy will undergo profound changes. This has been occurring steadily since the end of World War II. As new industries develop and prosper, others will decline. We don't look at the resulting job losses as mere statistics. We see a loss of livelihoods and the elimination of the lifeblood of many communities. We see our customers without work, without a chance to maintain a lifestyle developed through a lifetime of

hard work. We abhor that sight and are committed to improve the lot of our customers.

At Dayton Hudson, for example, we have used strategic public involvement to help make a difference to the health of our communities. Since 1946, we have committed to spending an amount equal to 5 percent of our federally taxable income for worthwhile community programs. We strive to address the emerging needs of our communities, holding ourselves accountable for achieving results. We leverage our giving budget with the volunteer effort of our people and by forming partnerships with others. We also take the initiative to help communities solve their problems, often becoming advocates on public issues that affect our customers. Our goal--which we know you share--is to make our communities better places to live, to work, and to do business. Through the development of positive trade legislation, we believe you can further our effort to help communities across the nation become more vital and self-sufficient.

Retailers will prosper in this country only if our customers have jobs and disposable incomes. We support measures aimed at helping those who have lost their jobs to begin again. Whether imports, recession, or other factors eliminate jobs, we believe all workers should be given an opportunity to enjoy gainful employment once again. Only government can provide the support needed on a national scale. We in the business community can help. We have long encouraged others to emulate our efforts at Dayton Hudson. But government must provide the financial support to make programs work. And workers, industries, and communities must commit to adjusting as a condition of receiving federal support. We are confident that the business community will do its part to fund workable programs. Our only concern is that the program help displaced workers adjust to an ever increasingly interdependent world.

If we are to have a truly coherent and rational trade policy, we must put an end to the schizophrenic practice of giving with one hand while taking away with the other. For example, as part of the Administration's effort to revitalize the Caribbean region, the Caribbean Basin Initiative (CBI) was introduced with the aim of expanding trade with the United States. But while some U.S. agencies provided funds for development assistance, the program was being cut back severely in other respects. Thus, the CBI, while launched with the best of intentions, has been rendered impotent by a host of product exclusions and limitations. Incredibly, total exports from CBI countries declined by 23% between 1983 (before CBI was in place) and 1985. Congress should renew the effort to help CBI nations prosper.

For too long, the U.S. trade policy mechanism has stumbled along in an seemingly ad hoc fashion, responding to crises only when the system threatened to overload and "cutting a deal" to avert a larger catastrophe. Our current trade policy is neither coherent nor comprehensive; each problem is treated in a vacuum. As a result, the current U.S. trade policy is just so much baling wire and chewing gum barely holding together an obsolete, creaking system.

Trade complaints of sufficient magnitude rarely run their full legal course. Typically, a "voluntary" restraint agreement temporarily alleviates a crisis and the country is saddled with yet one more market-sharing deal. The problem is that this cartelization of world trade--with its inefficient guarantees of market share--stifles innovation, perpetuates the status quo, and artificially hampers the operation of the market. As a nation, we do ourselves a great disservice by relying on the short term fix to structural trade problems. If we sap the vitality and creativity of the marketplace, we put a heavy drag on the economy. Our customers--your constituents--ultimately pay the hidden tax created by these burdens on the economy.

POSITIVE TRADE LEGISLATION

We recognize that the 100th Congress will pass trade legislation. You have very comprehensive, ambitious bills like H.R. 3 to consider. As you analyze that legislation, we hope you keep in mind our views on specific provisions of concern to retailers and the business community:

1. Scofflaw Provisions. We oppose section 175 of H.R. 3, which could put out of business any retailer found to have been grossly negligent on 3 occasions over a 7-year period under the customs laws. Keep in mind that large retailers process 1 million customs entries per year. Under this provision, 3 mistakes out of 7 million transactions could cost them their right to import. We cannot imagine that the Congress seriously perceives this type of tinkering as doing anything to lower the trade deficit. Back in 1978, this Committee overhauled the customs penalty provisions to provide fairness and due process. We are sympathetic with the Committee's desire to deter violations of customs laws. We too oppose counterfeiters and those who make a living evading customs restrictions and duties. But we ask that you not scrap the commendable reforms of 1978 in an effort to appear tough.

2. Licensing. We oppose any provisions requiring the Secretary of the Treasury to establish a licensing system governing imports. Last year's textile quota bill, for example, would have required a separate license for each of 250,000 monthly entries of textile and apparel items. Such provisions are designed to harass and to impede trade. They do not address our underlying trade problems and thus are inconsistent with a positive trade policy.

3. Limits on Presidential Discretion. We support efforts to maintain Presidential discretion under sections 201 and 301 of the Trade Act of 1974. If we are going to develop positive trade legislation aimed at fostering exports and expanding world trade, we cannot reduce the President to a statutory functionary. He must have broad discretion and authority to advance the national interest. He must retain authority to focus on the broader ramifications of import relief, not just the narrow factors assessed, for example, by the International Trade Commission in section 201 proceedings.

4. GATT Dispute Resolution. As I noted above, we believe efforts must be made to strengthen and improve the GATT's ability to resolve trade disputes and enforce judgments. We support measures like these designed to strengthen the multilateral trading system. We must avoid the beggar-thy-neighbor, mercantilist policies that have undermined world trade in the past.

5. Export Promotion. We support efforts aimed at improving the environment for U.S. exporters, such as the provisions contained in title III of H.R. 3. Beyond agreeing to specific export enhancement measures, however, the Congress must take more fundamental steps. As noted above, we must bring the federal deficit under control. All the efforts aimed at encouraging exports will be irrelevant if we do not solve the current budget mess.

6. Negotiating Authority. We support providing the President with wide negotiating authority as he embarks on the Uruguay Round of Multilateral Trade Negotiations. We recognize that the Congress has an important role to play in these negotiations and, along with the private sector, will be active in the formulation of our trade negotiating objectives. Unless we provide the President with this authority, we cannot hope to accomplish our overriding objective of expanding world trade.

- 7 -

7. Sector-specific relief. As noted above, many groups have well-honed pleas for relief. These groups would, no doubt, fare better when their foreign competition is saddled with additional trade barriers. But every new barrier has a cost, and the American consumer usually has to foot the bill in the form of higher prices. We as retailers are sensitive to the effects of sector-specific trade restrictions on our efforts to provide the goods desired by our customers. We hope you will reject efforts to further burden our customers with hidden costs.

Whatever the Congress does with respect to these and other provisions, you must recognize that trade policy cannot be viewed in isolation. Monetary and fiscal policies must be brought under control. As we approach the 21st century ahead, we must develop trade policies that promote rather than inhibit world trade. Enactment of positive trade legislation can help accomplish that objective.

CONCLUSION

On behalf of the business community, we want to again thank you for this opportunity to testify. There's no magic formula, no incantation that will guarantee success as we seek to develop our export potential. Rather, hard work, attention to detail, and a rational strategy are required on a daily basis. Let's not be afraid to compete. This trade bill must not bring forth a new generation of trade barriers. It must not attempt to bludgeon our trading partners into submission. It must not attempt to create a Fortress America.

Through the development of positive trade legislation, you can help lay the groundwork for growth. As I said at the outset, we have four principal concerns: First, that you not agree to sector-specific legislation. Second, that you tie federal financial assistance to a commitment by workers, industries, and communities to adjust. Third, that you give the President broad negotiating authority for the Uruguay Round. Finally, that we act aggressively in opening up foreign markets.

Your overriding goal must be to bring order to our chaotic trade policy. Trade laws should be tough on our trading partners when warranted, and predictable in operation. They should set our course for years to come in the international arena, providing a system that is logical and comprehensive, yet flexible enough to respond to the challenge of the future. Legislation alone is not the answer. It will not cure all our ills overnight. But it can establish the framework for constructive action, and to this end I hope that Congress will act with careful and earnest deliberation.

Thank you.

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February 20, 1987

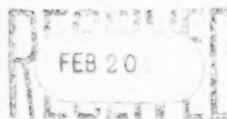
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BY HAND

COMMITTEE ON

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Room 1102
Longworth House Office Building
Washington, D.C. 20515



Dear Chairman Rostenkowski:

During his testimony before the Committee on behalf of the Retail Industry Trade Action Coalition (RITAC) and the business community, Mr. Boake A. Sells of the Dayton Hudson Corporation was asked to respond to four questions in writing. With this letter, we are forwarding a "Supplemental Statement" to be included in the hearing record that addresses the following subjects: (1) Section 119 of H.R. 3, the "Gephardt amendment," (2) Section 138 of H.R. 3, providing a private remedy for injury resulting from dumping, (3) the "Pease amendment" in H.R. 3, which would add to the definition of "unreasonable" under Section 301 of the Trade Act of 1974 the denial of internationally recognized worker rights, and (4) proposed Customs regulations redefining "fraud" under 19 U.S.C. § 1592. As requested, a copy of our corrections to the original hearing transcript is also enclosed.

If we can provide you with further information, please do not hesitate to contact us.

Sincerely,

Frank R. Samolis
Frank R. Samolis

FRS:jkl
Enclosure

I. THE GEPHARDT AMENDMENT

We oppose enactment of section 119 of H.R. 3, the so-called "Gephardt amendment," which would require an annual 10 percent reduction in our bilateral trade deficit with countries maintaining an "excessive and unwarranted" trade surplus with the United States. We are sympathetic with the Committee's expressed concerns that "international trade, as pursued by some nations today, is not in fact mutually advantageous." H. Rep. No. 99-581, Part 1, 99th Cong., 2d Sess. 47 (1986). We also share the Committee's concern about the past effectiveness of Section 301. In our view, however, the Gephardt amendment would only exacerbate our trade problems and undermine the efforts of the United States to strengthen the multilateral trade system.

As more fully stated below, we believe the Committee should delete this provision in mark-up. It violates the GATT, invites retaliation against U.S. exports (principally agricultural exports), and sets arbitrary and unrealistic time limits for negotiations. Moreover, it mechanistically seeks to remedy problems not necessarily resulting from unfair trade practices or foreign barriers to trade.

First, the amendment violates the GATT because it provides for the arbitrary imposition of quotas or increases in duties if the President is unable to negotiate reductions in our bilateral trade deficit with the countries falling within the ambit of the bill's provisions. As a general rule, under Article XI of the GATT, the United States may not impose quantitative restrictions on imports. Similarly, under Article II the United States may not unilaterally increase tariff rates "bound" during multilateral trade negotiations unless it is prepared to compensate the countries whose rights have been nullified or impaired as a result of the increase. Finally, the provision cannot be justified as an "escape clause" remedy under Article XIX limited to particular products or a measure under Article XII necessary to reduce the U.S. balance of payments deficit. Enactment of the provision would be particularly inappropriate given the commitment made by the United States at the launching of the Uruguay Round to a "standstill and rollback" in the imposition of further barriers to trade. The new round of trade talks is too important for the United States to jeopardize through enactment of GATT-illegal provisions like the Gephardt amendment.

Second, the measure would invite retaliation by our trade partners. Agricultural exports, which are already perilous, would be further put at risk if this measure became law. As Representative Daub stated during consideration of the trade bill last year, targets of the legislation are among the largest purchasers of U.S. agricultural exports. In 1985, Europe ranked no. 1, with a total of \$6.5 billion; Japan no. 2, with a total of \$5.4 billion; and Taiwan no. 7, with a total of \$1.2 billion. These exports would be at serious risk if those countries faced unilateral quotas or increased duties, which would only exacerbate the problem the amendment seeks to redress.

Not only U.S. exporters, but consumers as well would be hurt through enactment of this provision. As the New York Times observed last year, "[m]any industries abroad would be delighted to have an excuse to get their governments to set quotas that limit exports to America--and then to raise prices. That's just what has happened with the quotas on Japanese cars. The big losers are American consumers." More recently, the Washington Post noted in a February 19, 1987 editorial that "The Gephardt provision may be good politics . . . [b]ut it is irrational and dangerous as national policy for a country whose economy depends on world trade".

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Finally, the amendment establishes wholly unrealistic time periods for negotiating with foreign countries to reduce their trade imbalances. By giving the USTR two months (even if extended by an additional two months) to negotiate with foreign governments, the amendment ensures that the automatic retaliatory provisions of the bill will be triggered. The Committee cannot realistically expect two months of negotiations to produce solutions to problems that have taken years to develop.

In its mechanistic approach, the amendment seeks to remedy problems not necessarily caused by unfair foreign trade practices or barriers to trade. As indicated in our testimony, our huge foreign trade deficit is not a symptom of weak or ineffective trade laws. It is the product of the federal budget deficit, a strong dollar, faster economic growth in the United States than abroad, the enormous LDC debt, and foreign trade restrictions. Unfortunately, the Gephardt amendment ignores the more fundamental causes of our trade deficit with certain countries. As a result, it could well require U.S. trading partners to reduce their bilateral trade deficits by an amount greater than the total estimated impact of their trade barriers.

We fully support the Committee's efforts to open foreign markets to our goods. We support legislation, such as the provisions contained in title III of H.R. 3, to expand U.S. export opportunities. We cannot hope to accomplish these objectives, however, if we are erecting barriers to trade and ignoring our international obligations. We thus urge the Committee to avoid enacting country-specific measures designed to shield domestic industries from legitimate foreign competition. Rather, in developing positive, bipartisan trade legislation, the Committee should reaffirm the nation's commitment to free and fair trade and those policies that have helped the United States to prosper since World War II.

II. PRIVATE REMEDY FOR INJURY RESULTING FROM DUMPING

We oppose enactment of section 138 of H.R. 3, which would provide a private remedy for injury found to result from dumping. This provision ultimately will raise consumer prices and reduce international competition. Moreover, if enacted it would violate the GATT, invite retaliation through the enactment of mirror legislation by other countries, and lead to expensive litigation beyond the substantial costs of litigation currently incurred in the enforcement of the antidumping law. In our view, present law provides adequate deterrence to the type of predatory pricing practices section 138 seeks to discourage. For these reasons, as further articulated below, we believe the Committee should reconsider its support for this provision, particularly as it endeavors to fashion a trade bill to foster international trade and to increase the export potential of the United States.

First, adoption of the measure would have a chilling effect on the import process, as its supporters fully appreciate. Prices inevitably will rise, as exporters seek to reduce their possible exposure in being assessed with damages. Retailers will be more reluctant to import goods that their customers desire out of concern that the Court of International Trade will find they knew, "or should have known," that they had imported dumped goods. The extraordinary burden to ascertain whether they are buying goods at a "dumped" price level should not be forced on retailers, particularly given the complexities that face foreign producers in making such an assessment. If this measure becomes law, in the end the American consumer will be forced to pay the price for the protection section 138 provides.

Second, the measure violates the GATT and the Antidumping Code, both of which provide that duties are to be the exclusive remedy for offsetting the alleged harm caused by dumping. Article 6 of the GATT, for example, provides that "[n]o measure

other than antidumping . . . duties shall be applied . . . for the purpose of offsetting dumping" Article 16 of the Code reinforces this by stating that "[n]o specific action against dumping of exports . . . can be taken except in accordance with the provisions of the General Agreement, as interpreted by this Agreement." Moreover, Article 8 of the Code provides that the duty imposed be no greater than necessary to alleviate the injury. The assessment of damages beyond the duties levied would run afoul of these provisions. As part of an effort to craft positive trade legislation, the Committee should not agree to a provision inconsistent with our international obligations.

Third, enactment of the provision is likely to encourage the adoption of mirror legislation by other countries. As a result, U.S. companies trying to establish markets in other countries may well be faced with further impediments to trade. Like their foreign competitors, they too will face the risk of increased damages and inevitably will be forced to raise prices to compensate for increased uncertainty. This can only undermine our export efforts.

Fourth, adoption of the measure will add to the expense of litigation. Contrary to the claims of its supporters, the bill will add to the extraordinary costs already born by exporters and importers in the enforcement of current law. Of particular concern, retailers--who generally are not involved in antidumping proceedings--would be forced to incur unnecessary legal expenses defending their purchasing decisions. As noted above, this and the added uncertainty created will only add to the price of goods and reduce the selection currently available to our customers.

Finally, we disagree with the underlying premise of the provision that adequate relief from predatory pricing practices is not currently available. The Revenue Act of 1916 provides a right of action for predatory dumping. Other statutes, including Section 2 of the Sherman Act, also provide relief against the anticompetitive conduct the bill seeks to deter. That relief has not generally been available under the 1916 Act has little to do with its burden of proof, as alleged by the supporters of section 138. Rather, relief has not been frequently provided because the conduct the statute seeks to deter rarely occurs. As the Supreme Court stated in the *Zenith* case, "there is a consensus among commentators that predatory pricing schemes are rarely tried, and even more rarely successful." *Matsushita Electric Industrial Co. v. Zenith Radio Corp.*, 54 U.S.L.W. 4319, 4323 (1986).

Given the adequacy of existing law and the harm enactment of section 138 would cause, we urge the Committee to delete the measure in mark-up. The costs on consumers and our international reputation are too substantial to warrant adding such a provision in this year's trade bill.

III. THE PEASE AMENDMENT

We support measures like the Pease amendment, which seek to encourage other countries--which benefit from access to our markets--to provide their workers with basic internationally-recognized rights. The Pease amendment would accomplish this by amending Section 301 of the Trade Act of 1974 to include in the definition of "unreasonable" certain practices that deny internationally recognized worker rights. Our support of the Pease amendment also assumes that the existing discretionary aspects of section 301 would remain intact. In our view, the United States should use its influence to improve the lot of workers world-wide and to help our workers regain their competitive advantage. The Administration recently took a positive step in this direction in denying countries such as Paraguay and Nicaragua eligibility under the GSP program because of their flagrant denial of basic worker rights.

Assuming that the Committee agrees to keep this provision in its omnibus trade bill, we would encourage it to emphasize, as it did in report language last year, that the amendment does not force other countries to adopt U.S. labor standards verbatim. It recognizes that wage levels, hours of work, and health and safety standards vary throughout the world and that the amendment is not designed to define as "unfair" the wage levels or working conditions which are not at the same level as those in the United States. Finally, the Committee should emphasize that the enumeration of worker rights is all-inclusive, not illustrative, and thus is consistent with section 502(a)(4) of the Trade Act of 1974 as a basis for determining eligibility for duty-free treatment under the GSP program.

IV. PROPOSED CUSTOMS FRAUD REGULATIONS*/

The Customs Service has proposed regulations changing the definition of "fraud" under 19 U.S.C. § 1592. Under the proposed regulation, Customs would change a fraudulent violation from one that "results from an act or acts (of commission or omission) deliberately done with intent to defraud the revenue or to otherwise violate the laws of the U.S.," to one where it would be sufficient to prove "that the acts (including false statements) were 'knowingly' committed or made."

We believe that the change in the definition of fraud proposed by the Customs Service is unjustified and would be injurious to honest retailers and importers. The intent to knowingly do the acts and file the papers which are necessary to import goods into the United States when such papers may inadvertently contain a false statement is substantially different than the intent to defraud. The reduction of this standard places the honest retailer-importer in danger of violation of the customs regulation for acts which were not intended to deceive or defraud. The term "fraud" is criminal in character as it contains the element of deliberate deception and intentional misrepresentation. By reducing the standard of culpability to "knowingly" the Customs Service would subject honest retailers operating in good faith to the label of fraud on the basis of a "knowing" act of omission of an employee or agent.

In 1978, the Congress of the United States examined at length Section 592 of the Tariff Act of 1930 and passed the Customs Procedural Reform and Simplification Act of 1978 in order to modernize and bring up to date the U.S. customs penalty laws. Retailers supported enactment of the legislation and in particular the distinction, although not defined, between fraud, gross negligence and negligence noted in Section 1592(a) (1). That distinction is recognized by the current Customs Regulations. The proposed amendments would obliterate this distinction to the great detriment of legitimate U.S. businesses importing goods into the United States.

The proposed Customs Regulations amendment must be viewed in the context of other issues. In recent years there has been reduced manpower and increased demands on Customs Service personnel which has resulted in a substantial breakdown in the ability of the Customs Service to advise the American business community of what Customs considers to be correct classifications of imported merchandise for tariff and quota classification purposes. Retailer-importers must now make these determinations at their peril knowing full well that changes in Customs' position on classification now occur regularly and take effect immediately. Since both quota and tariff classification

*/ The views stated herein are adopted from the position articulated by the American Retail Federation in its February 9, 1987 submission in response to the agency's notice of rulemaking.

decisions have an effect upon the price of goods and their availability, where an importer knowingly lists a category that the Customs Service may later determine to be wrong it could result in a finding that the transaction was a fraudulent violation even though no intent to defraud was present.

For years retailers and importers have sought line reviews and rulings that were mutually beneficial to them and the Customs Service in that they reduced the Customs' workload and speeded up the movement of merchandise. These were particularly valuable to retailing in view of the rapidly changing fashions and lifestyle modes to which our industry must respond. It is virtually impossible to get binding rulings from Customs on a timely basis. The reduction of Customs Service specialists coupled with the proposed change in the Customs regulations relating to the definition of fraud would place retailers and importers who are acting in good faith in substantial jeopardy.

The elimination of the "intent to defraud" culpability standard should also be considered in light of trade legislation that is being considered in the Congress of the United States. Section 175 of H.R. 3 deals with scofflaw penalties for multiple Customs law offenders. It would prohibit any person who is a multiple Customs law offender from bringing goods into the United States for a three-year period if within a seven-year period the person violated one or more Customs laws finally determined to involve gross negligence, fraud or criminal culpability. Reduction of the culpability standard from "intent to defraud" to mere "knowingly" would place within the scope of that legislation violations which were never intended to defraud the United States. Bonafide law-abiding U.S. businesses would have little ability to plan or guard against the drastic penalties which would confront them if they or their employees or agents unintentionally placed statements (such as classifications), which were false or wrong in the Customs Service's view, in any Customs document.

For the foregoing reasons, we have urged the Customs Service to withdraw the proposed amendment and to terminate the rulemaking.

Chairman ROSTENKOWSKI. Mr. Gibbons.

Mr. GIBBONS. Thank you for allowing one of your associates, the gentleman sitting to your left rear with the red tie on, to come down to our hearings in Georgia in 1985. He was in a very unpopular position, but he handled himself extremely well, and we appreciate that.

In your detailed statement, do you find specific fault with H.R. 3 or 4800?

If so, I would like to read that. We are going to have to start with that as a basic mark-up document. I need to know what—how you feel about it.

Mr. SELLS. I think what I would like to do, since I am not a trade technician and don't know the amendments and all the parts of the bill, is have our counsel present a white paper that reacts to the total bill.

Mr. SAMOLIS. In the prepared testimony, there are a number of specific issues in H.R. 3 that we address.

Mr. GIBBONS. I will look for those.

Thank you very much.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

I appreciate your testimony. I am sorry that I was called away to my office and didn't have a chance to hear your entire testimony.

A couple of questions. Last year, during consideration of the textile bill, which I gather you are not endorsing at this hearing—is that correct?

Mr. SELLS. Yes.

Mr. PEASE. During consideration of that bill last year, members of Congress received two identical sport shirts, one made overseas and one made in the United States. Both apparently were the same price.

The point that was being made is that when retailers import less expensive products from overseas, they don't price them lower when they are similar to an American product; they price them the same as the American product and take the increased profit.

Therefore, claim the textile people, the American consumers don't get any benefit from these imports, only the retailers do.

Could you comment on this allegation?

Mr. SELLS. It is not an allegation; it is a fact. There are a number of products where people buy, import, and price products at the market price. I could also, if we wanted to get into the litany of individual products, identify thousands of products where we buy overseas at X dollars and price quite a bit lower.

If you know of a more competitive industry than retailing, I would like to know about it. Every time we think about maybe making an extra dollar or two someplace, someone figures out a way for us not to do that.

This is not a business where you get by with usurious pricing for very long. Yes, there are specific cases where we indeed work very hard to find merchandise that we can sell at "X" dollars that we have imported at "Y" price, but that is not the general purposes of it.

A retailer has to have the source of supply be transparent to him. We exist for one reason: to represent the customer. The customer drives us, we don't drive them. We can't drive the customer. The customer tells us every day, "You did this right; you did this wrong."

You know, we have a phrase around Dayton Hudson. In all the years I have been in retailing, never once have I had a letter from a customer that says, "You are not getting enough money on this. You have to charge more for it."

The customer doesn't care if we make money or not. He wants the best value on main street: where can I get this shirt at the right price and the right quality? We don't worry about where we get it either. We worry about what the quality is, and what the customer tells us.

Mr. PEASE. I think I can identify with what you are saying.

In a sense, Members of Congress are products, as well. I have never heard a constituent say that we are not getting enough money for the product of a Member of Congress.

Chairman ROSTENKOWSKI. We just assume they aren't getting the product.

Mr. PEASE. Two other questions.

Currently, American manufacturers, particularly of textiles, are conducting a rather extensive campaign to encourage people to buy American products, Crafted with Pride in the U.S.A. campaign which, I think, is a rather well-executed campaign. It is good advertising.

Have your retailers noticed any impact from that advertising campaign? Do your customers ask for or seek out American products, American-made products?

Mr. SELLS. Not so it is noticeable. It is a wonderful campaign. We endorse it, of course. Anybody would like to have American-made goods be preeminent.

On the other hand, when it comes down to it, if you only have a hundred dollars for clothes for 1987, you spend that hundred dollars the best way you can.

When the money hits the counter, it is rarely because the product was made in the U.S.A. versus made somewhere else. It is because the product serves the particular customer's needs.

Mr. PEASE. So, you do not detect any overabundance of patriotic fervor on the part of the consumers who come in?

Mr. SELLS. Not at the cash register.

Mr. PEASE. Your answer to that probably indicates what the next answer will be, too.

Do you know of any retailers who in their stores make an effort to promote American-made products, segregating them, for example, on, say, if you want to buy American, here is where to do it?

Mr. SELLS. There are a lot of them that do it. I know J.C. Penney's did it years ago. Wal-mart has been doing it recently.

I think many companies do it on one basis or another. It is a multifaceted sales promotion tool. It is an honest policy toward buy American and also has other fall-off benefits.

So, it is a complicated tool. It has been done many times.

Mr. PEASE. Do you have any indication of whether that is an attractive promotion in terms of its results? Do those who use that promotion—

Mr. SELLS. I wouldn't have any way of separating it from all the other variables.

Mr. PEASE. OK. You wouldn't have any objection, I presume, if we put language in this bill which seeks to rigorously enforce the multifiber agreement that we have all agreed to?

Mr. SELLS. If we have all agreed to something, then I think we ought to enforce it.

Mr. PEASE. Good.

Thank you very much.

Chairman ROSTENKOWSKI. Mr. Frenzel will inquire.

Mr. FRENZEL. Thank you, Mr. Chairman.

Mr. Sells modestly did not tell you that he offices in the thriving city of Minneapolis, the headquarters of his operation.

I welcome him along with a former employee of this committee who is advising him and—like Mr. Gibbons—I salute Pete for heroism in Georgia. He delayed the madding crowd long enough for me to escape.

Mr. Sells, on page 13 of your testimony you indicate that the federation and RITAC oppose the so-called scofflaw provisions, section 175, of H.R. 3, which, of course, occurred in last year's bill as well.

This was a part of your testimony that you didn't read, but I think it is something that ought to be stated. As I understand the thrust of your testimony, it is that when there are millions of import entries, it is awfully easy to make a mistake, especially easy to make a mistake when you are represented by brokers that are occasionally beyond your reach or control, and yet, three errors will knock you out of the box.

Do you want to comment on that?

Mr. SELLS. This scofflaw business is very, very distressing to us. You know, the world of import classification is a little like Alice in Wonderland. For example, a knit shirt, the one we were talking about earlier, has 38 different tariff classifications. When is a knit shirt a shirt? And when is it a dress?

I have a 16-year-old daughter who wears my shirts and sweaters. When she wears it, it looks like a dress. What is a shirt to a retail buyer, it looks a lot like a dress to a Customs inspector. Let me give you an example, a real world example from our Mervyn's subsidiary.

In 1985, Mervyn's imported some little stuffed animals. Some landed at the Port of Oakland and some landed at Long Beach.

Long Beach agreed with our description that they were stuffed animals. Oakland did not. It could have been the other way around, but one of the parts did not agree with us.

Oakland said Webster's says "stuffed" meant "fully extended." Since these were soft and cuddly, they were obviously not fully extended and they belonged in a higher duty category. This argument took months to resolve and considerable heat was generated on either side.

Now we have hundreds of thousands of these kinds of decisions being made every year. Three of these in 7 years and you are out of business? No. We can't deal with that. That is onerous. So, the

scofflaw provision just must be dealt with or it is injurious to us beyond the pale.

We can't deal with it.

Mr. FRENZEL. Does your organization handle a million transactions a year, or less?

Mr. SELLS. More or less, that is right.

Mr. FRENZEL. Other large importers handle as many or more?

Mr. SELLS. As many or more. We are about the sixth or seventh larger general retailer in America, so there are 6 or 7 people who do more.

Mr. FRENZEL. During the 7-year period provided in the bill, you have to stumble three times or have somebody stumble for you and then you are in the soup?

Mr. SELLS. That is right.

Mr. FRENZEL. And the penalty you consider excessive, as well?

Mr. SELLS. The penalty is that you cannot import a thing, nor can you hire an agent to import anything for you. In our case, let's say it is 10 or 20 percent of our sales, of our content. If we can't import anything, we would go out of business, I think. This is really survival type stuff.

Mr. FRENZEL. Obviously if everyone else were not able to import, you won't go out of business. But in normal competition, you are dead, aren't you?

Mr. SELLS. Right.

Mr. FRENZEL. I thank you for that.

Going on, you mentioned licensing on the next page.

Mr. SAMOLIS. I would like to note for the record that back in 1978, this committee crafted major procedural reforms to the Customs penalty laws and we would hope that those commendable reforms would not be cut back by any sort of scofflaw provision in the trade bill.

Mr. FRENZEL. Thank you, Mr. Samolis. I appreciate that.

I remember your heavy hand in those splendid amendments.

Going on to page 14, licensing, there have been suggestions that we license imports. Again, of course, we are talking about millions of entries and your suggestion here is that this is simply a form of harassment. You want to expand on that a bit?

Mr. SELLS. That has been used over and over, this type of thing, to slow up the business of commerce. The licensing doesn't need to cause delay very long with fashion goods before harm is felt. They are perishable products. It is like taking tomatoes and saying that they came in March, we will look at it in August. You can't do that with fashion merchandise.

That is what we are importing. This business of setting up licensing arrangements can be so injurious that we lose millions of dollars unnecessarily. It just raises the cost of doing business so the customer is the one who in the end pays for all of this. It is very injurious to doing business.

Mr. FRENZEL. I assume that we would have to hire a double ration of Customs agents to issue the licenses and then we would charge you a service fee for issuing them. All of which reminds me about the Customs. I understand they are thinking about a new definition of fraud.

Has your organization commented on that?

Mr. SELLS. I don't know about that one.

Mr. SAMOLIS. We would be happy to look at that. We will submit written comment for the record.

[See supplemental statement above.]

Mr. FRENZEL. I think it would be helpful to the committee if you would. We have very little control over the Customs Service here. We occasionally make recommendations to them which they summarily ignore, but we would be glad to have your feeling on that. I want to thank both of you for your testimony. I yield the balance of my time.

Chairman ROSTENKOWSKI. Mr. Guarini.

Mr. GUARINI. Thank you, Mr. Chairman.

Mr. Sells, you said that the objections to H.R. 3, which is last year's H.R. 4800, that passed the House are listed in your statement. There is mention made by Mr. Frenzel concerning the scoff-law provision and the licensing that you opposed. The only other thing I see an objection to is the limit on the President's discretion, 201 and 301, where you do not want to take away any statutory authority.

But other than the mention of the section or the specific relief that you don't think one sector should be favored over the others, I see no other objections. Do I assume then that you are entirely for the package of H.R. 3 with those exceptions?

Mr. SELLS. I have to leave it to Frank to react to that.

Mr. SAMOLIS. What we have done in the submitted testimony is to highlight certain provisions of H.R. 3 that are of particular concern to us.

Mr. GUARINI. Let me bring out some important provisions.

The Gephardt-Rostenkowski proposal that identifies countries that have gathered too large a surplus, trade balance, with the United States, that is an important provision. What is the position of your association in regard to that provision?

Mr. SELLS. Let me say, as I understand it, that is a nondiscretionary type amendment; is that right? Where if X happens, you must do Y?

Mr. GUARINI. To a certain degree that is true. It sets in motion requiring the President to act.

Mr. SELLS. The more that is true, the closer you get to no discretion, the tougher we are going to be about it. Because then it will tend to cut off things that are very important for the American consumer.

Mr. GUARINI. You are saying that you are in sympathy with the proposal, except you do not want to have it rigid, you want discretion on behalf of the President?

Mr. SAMOLIS. I think we would be in full agreement with the objectives of the provision, but we do have some concerns with the mechanics.

Mr. GUARINI. What about the human rights provision? What is your position with regard to that?

Mr. SELLS. I don't know the details of that.

Mr. SAMOLIS. I think we can submit a formal position on the Pease provisions. We certainly do not object to trade sanctions against countries that blatantly ignore internationally recognized

labor rights. We salute the decisions made by the administration against countries like Paraguay and Nicaragua.

Mr. GUARINI. The provision to help producers or manufacturers?

Mr. SAMOLIS. We are looking at that right now. We will send our comments.

Mr. GUARINI. Do you believe if a smoke stack industry, manufacturing industry, can't cut the mustard, so to speak, should then be not given any additional help, but should fold?

Mr. SELLS. If a particular industry can't cut the mustard?

Mr. GUARINI. If they are unable to compete, do you believe that the industry should be folded up?

Mr. SELLS. Is this a philosophical question?

Mr. GUARINI. It certainly is.

Mr. SELLS. Yes.

Mr. GUARINI. So if the manufacturers of automobiles in the United States cannot compete with Korea or Japan or Germany or other countries, that we should let go of trying to support or help as a matter of national policy those industries?

Mr. SELLS. Your question assumes that we have a level playing field, that everybody has the same rules, that everybody is competing head-to-head like we do in retailing, and all play by the same rules, and the theoretical resolution is that nobody in this country can figure out how to compete.

No. 1, I think that the assumption is not possible. So it won't happen. This country is going to compete successfully when it has a level playing field. There is no question about it.

We do it all the time. Even in textiles where they got behind, they caught right up.

Chrysler, which was way behind—nothing changed with the Japanese; they are still making cars pretty well, pretty cheap—Chrysler is doing great. Why?

Because they can compete. We know how to compete.

Mr. GUARINI. Some industries have trouble where they have a wage of \$4.22 as opposed to \$1.82 in Korea in steel in competing. Do you think they should receive government help and be able to regroup and reform? Or do you think that if the history is such that they can't compete, that we should close down our steel industry?

Mr. SELLS. I think in any given instance that a case can be made for relief from some kind of international disparity, it could be the dollar, or a lot of different factors. For a time period. But I think when you impose something forever, when you say, all right, here is a cocoon, you can just live in there for the next 20 years, I don't think that is good for anybody. You have to be out against your competition.

I think that is what drives this country better than anything else. I know it drives my company better than anything else. The most wonderful thing in the world is to have a Wal-mart, because you have to work, work, work, in order to stay in this business.

Mr. GUARINI. That is true in your opinion regarding the textile industry. If they can't make it against China, that enters a market with 18 cents an hour labor, or other countries in the Far East rim, that we would then not have any type of quotas that would protect the textile market in the United States?

Mr. SELLS. There are plenty of places in the textile business where there is no need for any protection. Plenty of it. How about the towel business?

Do you know how many towels are imported into this country? None.

Mr. GUARINI. If we ever had to go to war, we probably wouldn't be able to put shoes on our military people because we would have to import most of them. From what I understand, there probably is a balance that has to be reached between what is our war potential and our ability to defend ourselves and the state of our economy.

I am just wondering where you draw that balance.

Mr. SELLS. I can't do that in any specifics. This country can find a way to compete on most of the essentials if we are resolute in doing it and if people are given an incentive to do it. The elements are not just labor. The labor content in every product that each of us have mentioned here today is not a 100 percent.

There is capital content, there is raw material content, there is a lot of different content to the cost of an item.

Mr. GUARINI. Hypothetically, if we can't compete, how do you handle it?

Mr. SELLS. Hypothetically, how do I handle what?

Mr. GUARINI. That that particular industry, such as the textile industry, cannot compete with the new market of a billion people in China entering into the textile market in the world? How is it to be handled?

Are we to continue to pass quota laws or try to negotiate with other countries to limit the amount of imports that we take into our country on textiles?

Mr. SELLS. I think we have existing laws that are pretty good.

Mr. SAMOLIS. Mr. Guarini, if I may respond to that?

Mr. GUARINI. I am just trying to get your philosophy. I know it is a hypothetical question. It is a hard question we have to wrestle with.

Mr. SAMOLIS. There are laws on the books now that address unfair trade practices—dumping, prohibited subsidies—and laws that address a massive quantity of imports apart from an unfair trade practice that allow for trade relief to be provided, such as section 201.

Those laws are on the books and are available to any domestic industry. I think the challenge facing this committee is to make those laws workable so that an industry being injured by unfair trade practice or even injured by imports that are not unfairly traded have a means of getting relief that is viable and that is effective.

Mr. GUARINI. Lastly, in the bill H.R. 3, in section 201 that you mentioned, it says temporary relief should be given to the industry that is injured. We don't today give them even temporary relief. They have to often wait 3 or 4 years to exhaust the remedies.

It also says the standard of evidence, the proof that has to be given, doesn't have to be substantial injury anymore, that we have lowered the level of proof in our court system. I am asking whether you agree with those thrusts that have been made in H.R. 3 to make more sense of the existing statutory laws in the relief that is given to injured industries?

Mr. SAMOLIS. I think there can be improvements made to section 201. There can be improvements made by securing some kind of quid pro quo for relief.

Mr. GUARINI. Do you agree with temporary relief? Do you agree with the degree of evidence that H.R. 3 indicates?

Mr. SAMOLIS. I think we have a great deal of reluctance in reducing the discretion of the President.

Mr. GUARINI. That has nothing to do with the discretion of the President. I am talking about before the ITC.

Mr. SAMOLIS. I think that is what 201 is designed to do.

Mr. GUARINI. Thank you.

Chairman ROSTENKOWSKI. There being no further questions, Mr. Sells, I want to thank you very much for your patience and indulgence. I also want to express my gratitude for all the help that you evidenced in the last tax reform package.

The committee will stand adjourned until 10 o'clock Tuesday, February 10.

[Whereupon, at 1 p.m., the committee adjourned, to reconvene at 10 a.m., Tuesday, February 10, 1987.]



COMPREHENSIVE TRADE LEGISLATION

TUESDAY, FEBRUARY 10, 1987

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room 1100, Longworth House Office Building, Hon. Dan Rostenkowski (chairman of the committee) presiding.

Chairman ROSTENKOWSKI. Will our guests please find seats? All our guests, please find seats.

Today we continue our hearings on the omnibus trade reform legislation. Let me begin by repeating my comments from our opening hearing.

My desire is to seek bipartisan consensus on this important legislation. I want to see this country and this Government more united on trade, agreeing about the seriousness of the problem and about the policies we must pursue to correct it.

Our internal divisions are a sign of weakness to our trading partners. We cannot afford to lose the battle for world markets. Our national security and our way of life depend upon our economic strength.

In the spirit of bipartisan cooperation, we have asked Secretary Baker and Ambassador Yeutter to appear here today and describe for us the administration proposal in this area, as well as its position on H.R. 3 and other measures.

Secretary Baker, I know there are certain differences between us on the issue of trade legislation, but all of us on this committee welcome you here today. And we welcome the administration's sincere interest in working with us to resolve these differences.

I want you to know that we will make every effort to examine your proposals and to consider your objections. Our doors are always open. In return, I would ask that you and the President remain flexible about legislative options.

There must be a spirit of compromise on your part, too. You and I both know from experience that this is a long process and a lot will happen before we complete our task.

Before I call on you, Jim, I am going to yield to my ranking minority member, Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman. I would also like to welcome the Secretary to the Ways and Means Committee. I think trade, rightfully so, is the No. 1 priority for this committee this year. It is a problem we are all faced with in our own districts and in the Nation at large.

Almost every week I get a letter from someone in my district saying a plant has closed recently. A Magnavox plant in my district moved to Mexico. Rohm & Haas decided to close down a plastic line operation because they could not compete with plastics out of Taiwan. A tin manufacturer moved out of Knoxville to Korea, and General Electric closed a plant in the last 2 weeks and moved to Korea as well. It is a problem. We can talk about 203s and 301s and everything else, but when a man is out of work, he does not understand what you are talking about when you talk 201s or 301s. I think we have to give trade issues the highest priority, which we have, and I commend the chairman for taking the initiative that he has, and also the administration.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Do any other members have an opening statement? Mr. Pease?

Mr. PEASE. Thank you, Mr. Chairman. I do have an opening statement.

First, I would like to welcome the Secretary.

In the past 5 years, the faith of Americans in an open international trading system has seriously eroded. In part, this is because our trade laws and economic policy reflect the world as it was between 1945 and 1970, the golden era, when foreign competition did not have much effect on the country's prosperity.

Mr. Chairman, I believe that a key question before this committee is how we can reassure the average American that an open trading system will make as much sense in the 1990's as it did in the 1960's. As Lane Kirkland put it last week, "What will it take to ensure that we trade goods, not living standards, with the developing countries?"

Stand pat, free trade at any cost homilies are not the answer. Neither are protectionist import restrictions which would have the United States, the greatest power on Earth, crawl into its shell.

In my view, for Americans to continue to believe that an open trading system is in their interest, the Federal Government must deliver on four commitments. It must go to bat for American firms and institutionalize an active trading policy by using tough, hard-nosed negotiating strategies to secure for our products fair access to foreign markets.

It must exercise our leverage as the world's biggest, most open market to win new controls in the Uruguay round on increasingly sophisticated dumping, subsidizing and targeting by foreigners in our market.

It must promote productivity in the workplace and competitiveness in the marketplace by providing the proper means and incentives for American workers to sharpen their skills and for American businesses to adjust to import competition.

Finally, it must identify in advance the impact fiscal and monetary policies will have on our ability to compete in order to focus attention on problems before the damage is done.

Yesterday, I released the details of a legislative package which seeks to enhance H.R. 3's capacity to make good on these commitments to the American people. I hope the administration's proposal, when it becomes available, will meet these challenges head on

as well, and I look forward to hearing the testimony from Secretary Baker and Ambassador Yeutter.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Any other members? Mr. Daub?

Mr. DAUB. Mr. Chairman, I also commend you for initiating these hearings, and I welcome you, Mr. Secretary. Among the many unpleasant problems on the trade front, the most pleasant thing I note is the growing interest in bipartisanship. I am pleased to hear the more moderate rhetoric on both sides of the aisle attending this effort, overtures to get together and do something about our very difficult trade circumstances. I give you, in large measure, credit for that, Mr. Chairman.

Chairman ROSTENKOWSKI. Thank you.

Mr. Baker, you are no stranger to this committee. You have worn several hats in this administration, and I know that you and the members of this committee have burned the candle into the early morning hours on other legislation.

I hope sincerely that there is the continued atmosphere of cooperation that members on both sides of the aisle in the legislative branch, as well as your representing the President of the United States, do keep an open mind.

If there is one goal that I think we should have in trade throughout the world, it is that we leave the shoreline united. I think that there is a great possibility that might happen this year.

So with that, Jim, welcome to the Committee on Ways and Means.

STATEMENT OF HON. JAMES A. BAKER III, SECRETARY OF THE TREASURY

Secretary BAKER. Thank you, Mr. Chairman. If it is all right with you, I would like to summarize my testimony and ask that the full written statement be included in the record.

Chairman ROSTENKOWSKI. Your entire statement will be included in the record, Mr. Secretary.

Secretary BAKER. Mr. Chairman, the President has established a national goal of assuring this country's competitive preeminence into the 21st century. This is a call for aspirations. It is a call for achievement. We and you must use our influence to persuade the public that it is time for an American transformation.

This is an endeavor, Mr. Chairman, that must reach to the core of American society. Our businesses need to rely on their operational prowess and reputation for quality products, not government guardianship. Our capital markets must pay attention to the entrepreneur, to the little guy with the big ideas. Workers must take charge of their futures by making education and training a lifetime endeavor. Government at every level must encourage reform and excellence.

Mr. Chairman, the President's strategy has six parts, and I would like to briefly describe each. We expect to present to the Congress the legislative package to implement this program in the very near future. First, we must increase our investment in human and intellectual capital. We need schools that prepare our children

for a new technological age while building the values of old-fashioned striving and accomplishment.

Because the need for educational reform extends far beyond the classroom, we are also proposing a worker adjustment program to help an estimated 700,000 newly dislocated workers each year almost triple the number served under existing programs.

A second element of the strategy is to further America's preeminence in science and technology. We are launching initiatives to develop knowledge and advanced technology, swiftly transfer new technologies to the marketplace, and expand the talent base in science and technology.

Third, we are taking steps to better protect the U.S. intellectual property at home and abroad.

Fourth, we are proposing reforming outmoded antitrust, export control, and other rules that place us at a disadvantage in the world marketplace.

Fifth, we urge continued efforts to control Federal spending. The President's budget meets the Gramm-Rudman target for fiscal 1988 without raising taxes. We must add to the progress we expect to achieve in fiscal 1987. Now that we have turned the corner, we cannot afford to slacken our pace.

A final part of our strategy, Mr. Chairman, is to shape an international environment through new American leadership in which our knowledge, our talent, and our entrepreneurial abilities can flourish. In the past year, we have moved forward in the areas of economic cooperation, our debt initiative, and the pursuit of fair and open markets.

We have made progress in establishing the fundamental conditions for balanced global growth and a reduction in external imbalances. The dollar has now depreciated substantially against the currencies of the other major industrial countries since its February 1985 peak, two-thirds of that adjustment having occurred since the Plaza agreement of September 1985.

The industrial countries have sustained a moderate growth, and the non-oil-exporting developing countries have turned in a fairly strong growth performance over the past year.

Many observers believe external imbalances among the major industrial countries may have peaked in 1986. The exchange rate changes have helped bring about a leveling off of the U.S. trade deficit. We are confident the cumulative effect of the changes will contribute significantly to a reduction of our trade deficit this year.

The challenge now is to achieve further substantial reductions in external imbalances. Exchange rates play an important role in the adjustment process, but they cannot and they should not be the sole mechanism.

To hold the costs of adjustment to a minimum, exchange rate changes must be complemented by stronger growth abroad and by measures to adjust the structures of our economies. We will continue to impress on other industrial countries, particularly those with large external surpluses, our mutual need for them to achieve stronger sustained growth.

The newly industrialized countries in Asia also have responsibility for contributing to the adjustment of external imbalances. Open markets contributed much to the development of these economies.

Many newly industrialized countries are ready to enter the world trading system as full-fledged participants. One essential element will be that they follow policies that allow their currencies to better reflect economic fundamentals, and they must open their markets to foreign trade and to foreign investment.

We all have a stake in constructively addressing external debt difficulties among developing nations. We proceed not through quick-fix gimmicks, but through lasting solutions to underlying problems. Our debt strategy focuses on improving the debtor's growth potential through both macroeconomic and structural reforms supported by modest new financing essential to meet the needs of growth.

Considerable progress has been made. Many debtors are already taking important steps to increase savings and investment, improve economic efficiency, privatize public enterprises and encourage the return of flight capital. The IMF has negotiated new standby programs with 8 of the 15 major debtors. The World Bank has negotiated new policy-based loans with 10 major debtors, and the commercial banks are moving to make new loans available as exemplified by recent packages for Mexico, Nigeria, and Ecuador.

Mr. Chairman, this is a good start, and we hope for further progress.

Renewed economic cooperation in our LDC debt strategy must be coupled with a vigorous trade strategy, a firm opposition to unfair trade practices, market liberalization through bilateral and multilateral negotiations, and the rejection of protectionism in all of its guises as the greatest threat to a competitive America.

Let me mention several measures we are taking. As the President noted in his State of the Union Address, we are engaged in historic negotiations with our largest trading partner, Canada, for a free trade agreement. We urge private citizens and organizations in the United States to work closely with us so that we can forge an agreement with Canada that best serves our economic interest.

In the new round in the GATT, we are working to ensure that the laws of the world trading system are relevant to the commercial realities of the 21st century. We will continue to use our authority aggressively under the war chest program to counter foreign predatory financing practices.

We will introduce comprehensive statutory changes to improve our trade laws, including sections 201 and 301 and our antidumping and countervailing duty laws. We want changes that enhance our ability to meet the challenges from abroad without erecting protectionist barriers here at home.

I know that Ambassador Yeutter will be here with you today to discuss our trade proposals in some detail.

We are ready and willing to work with you to improve these laws. For the most part, our trade laws have been effective instruments for opening foreign markets and for defending Americans against unfair practices abroad. Regardless of reforms that are needed, the principle behind these laws stands firm. Competitive markets best serve this nation.

It is clearly, Mr. Chairman, the turn of our exporters to benefit from greater growth abroad and a more reasonably valued dollar. If they are to have access to markets abroad, however, we must

keep our markets open. We could not pick a worse time to unfurl the banner of protectionism.

We urge the Congress to measure legislative proposals against five key considerations. These proposals, in our view, need to facilitate the competitiveness of U.S. industry; conform to our international obligations; enhance our leverage in the Uruguay round and in other international trade negotiations; avoid provoking costly retaliation against U.S. exports; and avoid spurring our trading partners to enact mirror legislation that would harm U.S. exports.

Some of the proposals we have seen run counter to these principles. Without suggesting an all-inclusive list of proposals that we consider mistaken, I would like to note that the administration will have to resist the following:

First, we would oppose a general import surcharge. This surcharge would spur inflation; it would prompt retaliation by our trading partners; and it would hurt American industries that rely on imports.

Second, we oppose sector-specific protection, such as establishing import quotas for individual products. This route not only has all the drawbacks of a surcharge but also would be unfair to industries not receiving favored treatment. The textile quota bill, which the President vetoed, is a case in point.

Third, we would oppose mandatory retaliation. Retaliatory proposals can be useful in bringing about a solution, but a rigid, statutorily mandated approach that dictates to foreign nations is unlikely to lead them to reduce their trade barriers. It is far more likely to result in a counterattack against United States exports.

Finally, Mr. Chairman, understandably, we would oppose limits on Presidential discretion. If we are to be successful in negotiating more open markets, the President of the United States needs the flexibility to bargain. If our negotiators' hands are tied by statutory mandates to take certain actions in specific situations, they can be outmaneuvered. Or the negotiating process will break down, producing a protectionist result for everyone.

The foregoing proposals, like some others, are unwise and, in our view, counterproductive. They are compatible with a rigid, high-cost market environment relying on protectionism. This country, Mr. Chairman, has prospered for 200 years because it has been a dynamic, flexible environment, which has blended competition and cooperation to forge a unique economic union. In our view, we would be mistaken to reject this legacy.

The United States is facing new challenges and a changing world economy. The President's competitiveness initiative will help America address these challenges and help it enter the 21st century confident and strong.

Mr. Chairman, I know that I and others in the administration look forward to working cooperatively with the Congress on this program. Together, we can serve the public interest by encouraging the evolution of a vigorous, vibrant, forward-looking society, one that is worthy of our heritage as a great trading nation.

Thank you.

[The prepared statement follows:]

FOR RELEASE UPON DELIVERY
Expected at 10:00 a.m. EST

Testimony of the Honorable James A. Baker, III
Secretary of the Treasury
Before the
House Ways and Means Subcommittee on Trade
February 10, 1987

Mr. Chairman and Members of the Committee:

It is a pleasure to meet with you today to discuss the Administration's proposals for improving the standing of the United States in the world economy.

It is easy to understand the concern about this issue. The trade figures are stark, and the newspaper headlines are grim. This concern -- and the anxiety which it provokes -- can prevent strategic thinking on the problems of international competitiveness and trade. It can lead to quick-fix solutions that aren't really solutions at all -- just reflexive measures with superficial appeal.

What is needed is a program of action that confronts the issue completely and for the long haul. This program of action, presented by the President in his State of the Union message, addresses a key underlying cause of the trade problem -- America's competitiveness. Trade legislation plays a role in this program, but other measures are equally if not more important.

The President's Competitiveness Initiative

Of the many factors that affect the ability of a country to sell its goods and services both at home and abroad, no factor is more important than the competitiveness of its products.

How do we make competitive products? By running our businesses efficiently, by encouraging innovation and setting high standards of quality, and by making sure our workers have the skills they need not only for the tasks at hand but for the tasks to come. Government can either help this process or hurt it.

The President has established a national goal of assuring America's competitive pre-eminence into the 21st century. This is a call for aspirations, for achievement. We -- and you -- must employ our influence to persuade the public that it's time for an American transformation. This is an endeavor that must reach to the core of American society. Our businesses need to rely on their operational prowess and reputation for quality products, not government guardianship. Our capital markets must pay attention to the entrepreneur, to the little guy with big ideas. Workers must take charge of their futures by making education and training a lifetime endeavor. Government, at every level, must encourage reform and excellence.

To fulfill the Federal Government's responsibilities, the President has launched a six-part program aimed at:

- Increasing investment in human and intellectual capital;
- Promoting the development of science and technology;
- Better protecting intellectual property;
- Enacting essential legal and regulatory reforms;
- Reducing the budget deficit; and
- Shaping the international economic environment.

Each of these six elements will help make America -- and its products -- more competitive, thereby improving the standing of the United States in the world economy.

o Increasing Investment in Human and Intellectual Capital

To achieve competitive preeminence, we must increase our investment in human and intellectual capital. There is no resource more important than our own people.

We must continue the pursuit of excellence in our schools. Steps in this direction include emphasizing the mastery of basic subject matter, science, and computer skills, particularly at the elementary and secondary school level; targeting resources to help disadvantaged youth via more responsive educational services and special job training programs; and establishing a national goal of reducing illiteracy to ensure that every American learns to speak and write English so as to be able to participate fully in our society.

Because the need for educational reform extends beyond the classroom, the President will propose a new \$1 billion worker adjustment program that will:

- Help an estimated 700,000 newly dislocated workers each year (almost triple the number served under existing programs). The program will cover all workers, including farmers, not just those affected by imports;
- Offer counseling, job search assistance, basic education, and job skill training; and
- Provide training and adjustment opportunities to workers early -- long before they exhaust unemployment benefits.

The President will also propose statutory amendments to refocus the Employment Service (ES) and to transfer responsibility for financing and administering state unemployment insurance and ES to the states. This will provide states greater flexibility in helping unemployed individuals get back to productive jobs.

By giving our children the education they need to become productive members of society, and by helping our workers adjust to the changing job environment, we can ensure the availability of the skill and talent required to fuel a growing, dynamic economy. This is the first element in creating a more competitive America.

o Promoting the Development of Science and Technology

The second element is promoting the development of science and technology -- the centerpiece of U.S. competitiveness.

The President's initiative in this area focuses on maintaining U.S. pre-eminence in initiating ideas and know-how and in translating these ideas into new products and processes. To this end, the President has identified three national objectives: generating new knowledge in advanced technologies; swiftly transferring new technologies to the marketplace; and expanding the nation's talent base in science and technology.

To achieve these objectives, the President has developed a variety of initiatives, including:

- establishing a number of new university-based "Science and Technology Centers" that will perform long-term science and engineering research in vanguard fields such as robotics and biotechnology;
- promoting greater interplay between the public and private sector in the area of research and development (R&D) by improving industry access to the Federal science and technology enterprise and by creating special exchange programs;

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- continuing the Administration's strong budgetary support for basic research; and
- seeking stability in the R&D tax credit.

All of these measures will contribute to building America's competitive base in a world economy that is increasingly technically oriented.

o Better Protecting Intellectual Property

The third element in the President's competitiveness initiative is better protection for intellectual property. It is vital to ensure adequate protection, both domestically and internationally, to those who create new ideas and invent new products and services.

We can do this by seeking statutory changes that would, for example, permit U.S. adherence to the Berne Convention for the Protection of Literary and Artistic Works, thereby expanding U.S. copyright relations to include 20 additional countries. We also urge a number of other measures to protect U.S. commercial interests, including directing Federal agencies to take into account the level of U.S. intellectual property right protection when negotiating international agreements or providing bilateral economic assistance.

o Enacting Essential Legal and Regulatory Reforms

Outmoded rules and regulations and self-imposed disincentives place us at a disadvantage in the world marketplace. The fourth element in the President's initiative therefore addresses the legal and regulatory reforms needed to eliminate such obstacles to competitiveness.

For example, the President will propose statutory changes so that our antitrust laws reflect the dynamics of world trade. These comprehensive changes are aimed at enhancing the vigor of American businesses, while continuing to protect consumers and firms from monopolies, cartels, and price-fixing. In addition, the President has directed the Cabinet to undertake a review of the export controls program and recommend improvements in the system which will lessen the burden to U.S. business without diminishing U.S. national security.

o Controlling Federal Spending

The fifth element concerns Federal spending. The President has underscored his commitment to controlling Federal spending through introducing a budget that meets the Gramm-Rudman targets for FY 1988, without increasing taxes.

It is imperative that we maintain the deficit reduction momentum that we expect to achieve in FY 1987. I recognize that any venture involving budget cutting will breed differing views -- some strongly held. But now that we've turned the corner, we can't slacken our pace.

o Shaping the International Economic Environment

Of key interest to this Committee and its members is the sixth and final element of the President's Competitiveness Initiative -- shaping the international environment.

Experience of recent years has brought home to all of us here today just how interdependent the world economy has become. The effect on large segments of U.S. industry of deteriorating U.S. trading accounts has been painfully clear in this country. At the same time, our efforts to contain inflation have been aided importantly at various junctures by an appreciating dollar and declining international commodity prices. Nor can we overlook the role that capital inflows from abroad have played in supporting our own economic expansion.

The large U.S. trade deficit reflects the myriad linkages between our economy and the rest of the world. Exchange rate changes, the strong pace of U.S. economic growth relative to that of other major industrial countries, and the debt problems of the developing countries all have influenced our trade deficit. Our future performance on these counts will determine in large part our success in reducing that deficit.

The sixth element of the President's competitiveness initiative therefore focuses on shaping an international environment in which American knowledge, talent, and entrepreneurial abilities can flourish -- and in which American goods and services can compete freely and fairly both at home and overseas.

The President's program of action in this area covers a wide range of inter-related measures, including:

- strengthening economic cooperation on a global scale to achieve improved, more balanced growth and the reduction in external imbalances necessary for greater exchange market stability;
- pressing forward with the strengthened debt strategy to improve both growth and imports in debtor nations; and
- pursuing an aggressive, comprehensive trade policy that focuses on creating open, competitive markets through vigorous bilateral and multilateral negotiations and tough-minded enforcement of U.S. trade laws.

International Economic Cooperation

During the past year, we have made progress in establishing the fundamental conditions for balanced global growth and a reduction in external imbalances. The dollar has now depreciated substantially vis-a-vis the currencies of the other major industrial countries since its February 1985 peak; two-thirds of the adjustment has occurred since the Plaza Agreement of September 1985. The dollar has declined 40-50 percent against the yen and the Deutschmark since its early 1985 peak. The industrial countries have sustained moderate growth, and the non-oil exporting developing countries have turned in a fairly strong growth performance over the past year. Rates of inflation in the industrial countries have, with an assist from the decline in oil prices, fallen to the lowest levels since the 1960s. Key interest rates have continued to trend down. Progress has also been made in reducing fiscal deficits in the major industrial countries to more manageable levels.

Many observers believe external imbalances among the major industrial countries may have peaked last year. The U.S. current account deficit probably reached about \$145 billion in 1986 (actual figures due in March), while the current surpluses of Japan and Germany were around \$86 billion and \$36 billion, respectively. Many forecasters think it likely that our current account deficit will decline this year to around \$130 billion and that the Japanese and German surpluses will decline somewhat as well.

The effects of the exchange rate changes over the past two years on our international trade balance have not yet proved as quick or as strong as had been expected from past experience. However, exchange rate changes have contributed to a leveling out of what had been an upward trend in our trade deficit.

Given the great volatility of monthly results, the sharply reduced deficit for December cannot by itself be taken as a clear turn for the better. However, it does cancel out the alarms raised by the sharply higher deficit initially reported for November. It also substantiates our assessment that these monthly Census-basis deficits have held roughly flat for more than a year.

More importantly, we are confident that the cumulative effect of the exchange rate changes thus far will contribute significantly to a reduction of our trade deficit this year.

The challenge before us is to build on this foundation to achieve substantial further reductions in external imbalances. Exchange rates play an important role in the adjustment process, but they cannot and should not be the sole mechanism. If the costs of adjustment are to be held to the minimum, exchange rate changes must be complemented by stronger growth abroad and measures to adjust the structures of our economies.

We have sought to facilitate other necessary corrections of external imbalances through intensified international economic policy coordination. Over the past year, we concentrated considerable attention on strengthening international arrangements for such coordination. Building on the Plaza Agreement of September 1985, we were able to reach agreement on enhanced coordination at the Tokyo summit last May. The first meeting to implement the new process was held last September immediately prior to the annual meetings of the International Monetary Fund and the World Bank. In late October, the United States and Japan announced bilateral agreement on cooperative actions which, as they are implemented, will contribute to sustained growth in the world economy. On several occasions last year, internationally coordinated interest rate reductions took place. We will be building on these accomplishments in the year ahead, recognizing that each meeting will not produce an agreement and each agreement may not result in a major redirection of economic trends.

The pace and pattern of growth in the industrialized countries will continue to receive our close attention. Last year, domestic sources of demand growth strengthened abroad, particularly in Europe. Yet there can be little question that more needs to be done to promote more rapid growth abroad. As external surpluses are reduced, accelerated growth of domestic activity abroad is necessary to maintain even moderate rates of GNP growth.

We will continue to impress on other industrial countries, particularly those with large external surpluses, our mutual need for them to achieve stronger, sustained growth. The alternatives to stronger growth abroad -- unacceptable levels of economic activity in the United States, or exchange rate changes greater than would otherwise be needed, or both -- cannot be viewed lightly in the current international environment.

Responsibility for actions contributing to the adjustment of our external imbalances does not rest with the major industrial countries alone. The newly industrialized countries in Asia have also come to play a significant role in international trading patterns. Open markets contributed much to the development of these economies, and many of the NICs are now ready to be brought into the world trading system as full-fledged participants. One essential element will be that they follow policies that allow their currencies to better reflect economic fundamentals. And they must open their markets to both foreign trade and investment.

International Debt

This Committee is well aware of the close linkages between debt and trade, as well as their common connection to global growth and financial stability. We all have a stake in constructively addressing international debt difficulties -- not via quick-fix gimmicks, but through lasting solutions to underlying problems.

I recognize that it is politically tempting to search for dramatic gestures which could sharply reduce debt service burdens overnight, or significantly increase the financial resources available to debtor nations to import our goods. Across-the-board debt forgiveness, in this light, may have some mistaken

appeal, but would ultimately damage both debtor nations and the global economy. External capital would be available to debtors at prohibitive prices, if at all; bank losses would weaken some of our important financial institutions; and U.S. budget and taxpayer costs would increase significantly.

Similarly, calling for massive new lending (by others) to the debtor nations, either bilaterally or through a new multilateral fund, may appear to offer an easy way to boost U.S. exports and growth in the debtor nations. But without fundamental policy reforms, neither U.S. exports nor debtor growth can be sustained for the longer term. Throwing money at the debtor nations won't solve their problems; it will, in fact, worsen their difficulties unless the new financing can be productively absorbed and is consistent with their ability to grow and service debt.

In contrast to these "overnight" solutions, our debt strategy focuses on improving the debtors' growth potential through both macroeconomic and structural reforms, supported by modest new financing essential to meet immediate needs. Despite the relatively short period which has passed since we proposed this debt initiative, considerable progress has been made.

- Many debtors are already taking important steps toward increasing savings and investment, improving their economic efficiency, privatizing public enterprises, and encouraging the return of flight capital.
- The IMF has negotiated new standby programs with 8 of the 15 major debtors since October 1985, including new loan commitments of about \$4.7 billion.
- The World Bank has negotiated \$2.9 billion in new policy-based loans with 10 major debtors, and has discussions underway on nearly \$5 billion in additional policy-based loans. Aggregate World Bank loan commitments to these debtors increased by 40 percent during its fiscal year 1986, and a substantially larger share of loans is now based on structural policy reforms.
- Finally, the commercial banks are also moving to make new loans available, as exemplified by the recent \$7.7 billion package for Mexico, a \$320 million new money package for Nigeria, and a \$220 million oil facility for Ecuador. Nearly \$70 billion in debt reschedulings have been negotiated with the major debtors since October 1985. A number of other financing packages and reschedulings are also now under discussion.

This is a start -- a good one. We hope for further progress, but realistically must recognize that it will be gradual and will vary among nations, depending upon their own determination to implement growth-oriented reforms and the continued active support of the international community. That is the task before us, and the only true solution to international debt problems.

International Trade

Renewed economic cooperation and the strengthened LDC debt strategy must be coupled with a hard-hitting trade strategy, the third aspect of the President's initiative to shape the international economic environment. This strategy builds on the pillars of our trade policy to date -- a tough position on unfair trade practice at home and abroad; market liberalization through results-oriented bilateral and multilateral negotiations; and rejection of protectionism, in all its guises, as the single greatest threat to the competitive future of America.

The President's initiative encompasses the following:

- Aggressively Opening Markets. The President will not tolerate closed markets, trade barriers, and unfair subsidies which deny American firms a fair chance to compete. The Administration will expand its efforts to open foreign

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markets through vigorous bilateral and multilateral negotiations and by using our trade laws to eliminate unfair trade practices wherever they occur.

- Negotiating a Free Trade Agreement with Canada. The Administration is now engaged in historic negotiations with our largest trading partner, Canada, on a free trade agreement that will improve commercial opportunities on both sides of the border and serve as a model for trade liberalization on a global scale. We will work with the Canadians and Congress to conclude an agreement in our mutual interest. We also urge private sector parties from the United States to work closely with us, so we can forge an agreement that best serves our economic interests.
- Negotiating in the GATT. The President will work to ensure that the laws of the trading system are relevant to the commercial realities of the 21st century. The United States Trade Representative will press hard for quick results from the Uruguay Round of multilateral trade negotiations in areas critical to America's competitive future, including agriculture, services, intellectual property rights, and investment.
- Attacking Foreign Predatory Financing. The Administration has aggressively used the "war chest" monies provided last year to attack foreign predatory financing practices. To support these efforts and to put our trading partners on notice that we will use our full authorities to counter foreign subsidized credit offers, the President has asked Congress for the additional \$200 million promised for the "war chest."
- Improving U.S. Trade Laws. We will introduce comprehensive statutory changes to improve our trade laws in ways that will enhance our ability to meet the challenges from abroad without erecting protectionist barriers at home. The President's proposals will include:
 - seeking negotiating authority for the Uruguay Round;
 - replacing the antidumping law with a new, predictable pricing remedy to cover products from nonmarket economies and tightening antidumping and countervailing duty laws through new anti-circumvention provisions to prevent evasion of duties;
 - amending Section 301 to establish a 24-month deadline on dispute settlement cases and to improve coordination with Congress through reports on the commercial effects of Section 301 cases;
 - establishing reciprocal access to foreign markets as an additional factor in consideration of a Section 301 case;
 - amending Section 201 to provide expedited relief for perishable products and to create additional options for relief, including multilateral negotiations and regulatory relief; and
 - seeking improvements to the Export Trading Company Act and a reform of the Foreign Corrupt Practices Act.

I know that this last set of measures -- improving U.S. trade laws -- is of special interest to your Committee. Ambassador Yeutter, the U.S. Trade Representative, will discuss these measures and recommendations in greater detail in his testimony. In addition, the Office of Management and Budget is currently coordinating the preparation of the legislative language for the Administration's competitiveness package, which the President will forward to Congress in the very near future.

For my part, I want to emphasize the Administration's readiness and willingness to work with you to make the necessary changes in these laws. We need to keep in mind that, for the most part, our trade laws have proven to be effective instruments for opening foreign markets and defending Americans against unfair practices on the part of our trading partners. There are a few exceptions to that rule -- but not many. Regardless of the reforms that need to take place, the basic principle behind these laws stands firm: competitive markets serve America's interests best.

It is clearly the turn of our exporters to benefit from greater growth abroad and a more reasonably valued dollar. If they are to have access to markets abroad, however, we must maintain the openness of our own markets. We could not pick a worse time than now to unfurl the banner of protectionism.

We urge the Congress to measure proposals against five key considerations. Our actions need to:

- facilitate the competitiveness of U.S. industry;
- conform to our international obligations;
- enhance our leverage in the Uruguay Round and in other international trade negotiations;
- avoid provoking costly retaliation against U.S. exports; and
- avoid prompting our trading partners to enact mirror legislation that would harm U.S. exports.

Some of the trade proposals we have seen from the Hill conflict significantly with these principles. Without implying that these are the only troublesome notions that have been suggested, I should stress today that the Administration would have to resist the following legislative measures:

- A general import surcharge. Such a surcharge could spur inflation, prompt retaliation by our trading partners, and hurt American industries that rely on imported inputs.
- Sector-specific protection, such as establishing import quotas for individual products. This route not only has all the drawbacks of a surcharge but also could be unfair to industries not receiving favored treatment. The textile quota bill -- which the President vetoed -- is a good case in point.
- Mandatory retaliation. Mandatory retaliation -- linked, for example, to a country's bilateral or global trade surplus -- is too inflexible. Threats can be useful to negotiate a solution, but a rigid, statutorily mandated approach that dictates to foreign governments can make them less likely to agree to reduce barriers and more likely to dig in and counterattack by closing their markets to U.S. exports.
- Limits on Presidential discretion. If we are to be successful in negotiating more open markets, the President needs the flexibility to bargain. The President should have at his disposal a full range of policy tools in order to promote open, competitive markets at home and abroad. If our negotiators are constrained by legislative requirements to take certain actions in specific situations, they can be outmaneuvered. Or the negotiating process will break down, producing protectionist results for everyone. Without sufficient authority, U.S. negotiators will not be able to obtain concessions.

The foregoing proposals, like some others being weighed, tend to be counterproductive. Such approaches are compatible with a rigid, high-cost market environment relying on protectionism. America has prospered for 200 years because it has been a dynamic, flexible environment -- which has blended competition and cooperation to forge a unique economic union. We would be mistaken to reject this legacy.

Conclusion

There is growing recognition that the United States faces new competitive challenges as a result of fundamental changes in the world economy. The United States must meet these competitive challenges to maintain its economic strength and world leadership. The President's Competitiveness Initiative offers a program of action for ensuring that America is well prepared to meet these challenges and to enter the 21st century confident and strong.

I know that I and others in the Administration look forward to working with the Congress on this program. Together we can serve the public interest by encouraging the evolution of a vigorous, vibrant, forward-looking society -- one worthy of our heritage as a great trading nation.

Chairman ROSTENKOWSKI. Thank you, Mr. Secretary.

Mr. Secretary, early last year, you forecast a trade deficit of about \$130 billion for 1986. The actual figure, as you know, is \$170 billion, which far exceeded your estimate.

What in your measured guess do you expect for 1987?

Secretary BAKER. Well, Mr. Chairman, first let me, if I might, correct you. I think the forecast was on the balance of payments basis, and you are using the census basis when you refer to \$170 billion. Notwithstanding that, the forecast missed, and I am quite ready to admit that because the deficit was \$150 billion on a balance of payments basis.

As I indicated in my statement, we believe that the trade deficit is at least beginning to level off. We do not see it going down yet. It is the view of the Treasury Department that we can reasonably expect to see a roughly \$20 billion reduction in the trade deficit in 1987, so it would move from \$150 billion on a balance of payment basis down to \$130 billion.

We think that would happen as a consequence primarily of the exchange rate changes which have taken place, finally being seen in the trade figures.

Chairman ROSTENKOWSKI. Mr. Secretary, the large U.S. trade and current accounts deficits are mirrored by large Japanese surpluses. As you know, Japan runs surpluses with most of its trading partners.

Do you believe the Japanese Government is prepared to take the necessary steps to begin reducing its surpluses?

Secretary BAKER. Well, I think the Japanese Government understands, Mr. Chairman, that the situation that presently exists, particularly vis-a-vis the trading relationship between the United States and Japan, is not sustainable; that it is not sustainable economically, and that it is not sustainable politically.

I think the Government of Japan is taking steps to increase its domestic demand. Quite frankly, we would hope for further progress in this regard, but I do believe that there is a recognition on the part of the Government of Japan that these external imbalances have got to be resolved one way or another.

Chairman ROSTENKOWSKI. What worries me, Mr. Secretary, is there are several of us on this committee that visited the Far East last year. It was apparent that those of us that were in discussions felt the heartbeat of members of the Diet—that they recognize that there is an imbalance.

My concern is that while we can talk to the Nakasones—and President Reagan and Mr. Nakasone get along pretty well, I understand—I wonder, are we reaching the legislators back there in Japan? Do they understand that this imbalance is not just with the United States?

The problem is that Japan is the focal point, in our visits throughout the Far East, of all our trading partners. I am just hoping that there will be some rifle shots to determine whether or not the Japanese are going to be sincere; because I do not believe we returned to the United States with the old attitude that, oh, yes, things will go along as they have in the past. As you are aware, and I believe the country is aware, we are going to have

trade legislation. I am afraid and sorry to say that it is going to focus more on our trading partners in Japan than anywhere else.

Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman. Thank you, Mr. Secretary.

Mr. Secretary, how does growth in our economy depend on expanding overseas markets?

Secretary BAKER. Well, Mr. Duncan, one of the elements of the gross national product is the element that is contributed by external factors or that operates to limit growth as a consequence of an external deficit. So to the extent that we can improve our trade position, we stand to increase the likelihood of greater real GNP for the United States.

Mr. DUNCAN. Is growth in productivity in the United States slower than the growth today in other industrialized nations?

Secretary BAKER. Is it slower than the growth in other industrialized nations?

Mr. DUNCAN. Yes, sir.

Secretary BAKER. I think on an overall basis, Mr. Duncan, it would be fair to say yes, it is slower than productivity growth in most of the other major industrial nations.

Interestingly enough, manufacturing productivity is holding up reasonably well in the United States, but when you include the service sector—which is becoming an ever increasing segment of our total GNP—productivity is lagging.

Mr. DUNCAN. Would you care to discuss product quality? Sometimes I think it is a myth when we say that foreign nations manufacture better products. If you look at abandoned automobiles on the highway, they are always foreign automobiles, not American automobiles. In the bad weather we had just recently, I counted automobiles going home, and 8 out of 10 cars left on the street were foreign automobiles and not American automobiles.

I think it's the same with textiles and clothing. Sometimes you have the same garments in a department store; one is foreign made and one is domestically made, and they are just about the same price. I also think that the consumer profits are, sometimes just a little bit out of line.

Would you care to discuss the product quality?

Secretary BAKER. Well, I think part of becoming competitive, Mr. Duncan, is making sure that the products that we produce in the United States from a quality standpoint are up to snuff, if you will, and that they can compete effectively, given a level playing field, with the products of other countries.

That has been the case throughout the history of the United States, although I must say I think it is important that we reexamine some sectors of our society to make certain that we are still lean and mean. We need to take a look, to make certain that business is still lean and mean, and I think we are doing that. I think business is moving substantially toward reforming in many, many sectors.

But it is important that we produce products that are competitive. Throughout our history, we have been able to do that.

Mr. DUNCAN. Although the dollar has depreciated sharply in relation to the German and Japanese currencies, it still remains high

against the currencies of other countries such as Korea and Taiwan.

Is there any prospect for improvement in that?

Secretary BAKER. Well, there is a prospect for improvement, and, in fact, there has been some improvement in recent months, Mr. Duncan. We have had quiet discussions with some of the countries that you are referring to.

What counts, of course, in terms of trade competitiveness is real exchange rates, not nominal exchange rates. People quite frequently say, gosh, the dollar is strengthening against the Mexican peso. Well, one reason is because Mexico has such a tremendous amount of inflation down there. And it is quite natural that as long as they run that inflation, their currency is not going to strengthen; it is going to continue to weaken. But what really counts is real exchange rates, not nominal exchange rates.

Our staff calculates that there has been a very substantial fall of the dollar in real terms not only against the major industrial countries, but against countries accounting for roughly 85 percent of total trade of the United States.

So to answer your question, we are continuing our discussion with some of the newly industrialized countries. We recognize it is not enough to see an overly strong dollar decline against just the major industrialized countries, but I think we are making pretty good progress.

Mr. DUNCAN. Do you see danger in the further decline in the value of the dollar?

Secretary BAKER. There is always a danger if the dollar should decline too far too fast, Mr. Duncan, and we have spoken to that in the past. There could be the possibility of some return of inflation.

I have said before we have been very fortunate in the United States that we have sought a decline of our currency at a time that world oil prices were in decline, so there has not been, quite frankly, a resurgence of inflation; nor have we seen any discernible effect of the decline of the dollar to date in our ability to finance our deficit or in the cost of financing our deficit. Those are the two risks, if you will, of an overly sharp decline of the dollar.

Mr. DUNCAN. Thank you, Mr. Secretary.

Chairman ROSTENKOWSKI. Mr. Dorgan.

Mr. DORGAN. Mr. Secretary, I share your goal of the pursuit of excellence in our schools and think that is important for our long-term trade prospects, but isn't that recommendation at odds with the President's budget?

I mean, the President has suggested in his budget radical cuts in the Federal Government's contribution to education.

Secretary BAKER. Well, Mr. Dorgan, some make that claim. We would say no, that is not the case. The fact of the matter is, the Federal Government's share of the total spending on education in this country is roughly 7 percent.

Most spending on education takes place at the State and local level. Even if you should assume that the Congress would legislate the cuts which the President has asked for in the education budget this year, there would, as a consequence of increased spending at the State and local level, be a net increase in spending on education.

So, I really do not think it is contradictory to say that we need to examine our educational system, we need to look at the basics, and, at the same time say we do not have to spend as much at the Federal level to do that.

Mr. DORGAN. Well, as I said, I share your goal. My own sense is that that is contradicted by the President's specific recommendations with education.

I would like to ask you a more general question about the longer term trade outlook in the relationship between the United States and Japan, and I would like your observation of it.

If, in this country, we are required to spend a great deal of money, and do spend a great deal of money to keep the sea lanes open, and to keep the free world free, and if major trading partners who are tough, shrewd, and very competitive, such as Japan, are able to spend a relatively insignificant portion of their GNP on defense, which frees their scientists and engineers to build better toasters, and tires, and television sets, while our scientists and engineers—in fact less engineers and less scientists than Japan—are building M-1 tanks, and F-18's, and so on.

Does not that, in the long run, condemn us to a second-rate competitive position, unless we ask Japan and some others to provide offset contributions for helping pay for that defense umbrella?

I would like your observation of that, and whether we are making strides, or in fact even making efforts, for some sort of offset contribution from countries like Japan?

Secretary BAKER. Well, first of all, Mr. Dorgan, I do not think it condemns us to a perpetual second-rate position in terms of our ability to compete commercially around the world.

No. 2, I think we are making some progress. You probably saw where the Japanese Government recently voted to break what had heretofore been a limit on the percentage of their GNP that they would commit to their own defense.

I understand the argument that you are making. It has been made by a lot of very thoughtful and responsible commentators and economists. It is an economic argument, and as such, I think it has merit. As a national security argument, the counterargument is: we are not out there defending Japan, and we are not in Europe defending Germany or France or Great Britain. We are defending the United States.

And what we are doing in Asia and in Europe is necessary for the national security interests of the United States, not the national security interests of our allies, certainly not them alone.

Mr. DORGAN. I understand your point and I am not posing it as a security argument. I am posing it as a question of competitiveness. Nor am I suggesting that we want to see a Japanese military superpower in Asia.

I am suggesting, however, that in the long term, with the imbalance in GNP contribution we make to defense versus Japan, and also, frankly, with some European countries, that we are, as a result of that, less competitive in the international marketplace. I would like to ask, Mr. Secretary, another question on the oil import fee, which I think you mentioned briefly.

Could you tell me the administration's current position on an oil import fee.

Secretary BAKER. The President considered the advisability last year, Mr. Dorgan, of an oil import fee, and he concluded at the time that he would not support it because he likens it to a tax across-the-board. It is of course an across-the-board import fee. At a time when we are seeking to enhance the competitiveness of American industry it would be counterproductive to increase the costs of energy to American industries above that which other industries that compete with American industries have to pay. He opposed it for some other reasons—the requirement that there be a separate bureaucracy established to administer it, if you are going to have an exemption for home heating oil, and so forth.

In my view, I do not think it is likely, quite frankly, that an oil import fee would be supported today, although the issue has not been put to the President for about a year.

Mr. DORGAN. Mr. Secretary, one final question. What is the likelihood of achieving some success with Japan, again to use Japan specifically, with respect to the barriers that currently exist in Japan for the export of American agricultural goods to Japan? I am referring to beef, but there are other export barriers that prevent us from selling to Japan the kind of products that we should be able to expect to sell to Japan.

They now purchase \$5 billion worth of our agricultural goods. They reasonably ought to be expected to purchase 50 to a 100 percent more than that given the current trade deficit we experience with Japan.

What progress are we making with respect to those import barriers?

Secretary BAKER. Well, we continue to negotiate with Japan, particularly with respect to beef and citrus, as you know, and we have made some progress, but not enough, in those areas. There is a problem with rice. I do not frankly think that the prospects are particularly good where rice is concerned. Rice is somewhat cultural as far as the Japanese are concerned, but we are going to continue to work at it and see if we cannot open up those markets to a greater extent to American agricultural products.

Mr. DORGAN. Thank you, Mr. Secretary.

Chairman ROSTENKOWSKI. Mr. Pease.

Mr. PEASE. Thank you very much, Mr. Chairman.

Mr. Secretary, although the dollar has depreciated substantially against the currencies of our major trading partners since early 1985, as you have pointed out today, the trade deficit has shown no clear signs of improvement, and your only hope for the time-being is that perhaps the trade deficit will level off.

Why do you think it is that we have not shown more improvement?

Secretary BAKER. Well, Mr. Pease, the economists tell us that it takes 12 to 18 months for exchange rate changes to be reflected in trade figures. We are 16 months away from the Plaza, so it would seem to me to be consistent with that view that we might see it begin now to level off, and, hopefully, see some decline in the trade deficit.

Mr. PEASE. So your basic feeling is that the J curve is alive and well, it is just going to take another couple of months to figure it out?

Secretary BAKER. I have to accept the statements of the economists on that, Mr. Pease, but I assume that is the case; yes, sir.

Mr. PEASE. Thank you. Some reference has been made earlier, in other questions, to the fact that some of our important trading partners like Korea, Taiwan, and some Latin American countries, tie their own currencies to the dollar, and therefore there has not been the weakening of the dollar against those currencies that we have observed with Japan and West Germany.

How important do you think that tying of exchange rates on the parts of some of those countries is in terms of our own trade deficit?

Secretary BAKER. Well, I think it is important that we have a level playing field on exchange rates with all of our trading partners, Mr. Pease. I think the United States should not be penalized simply by virtue of the fact that the dollar happens to be, de facto, the world's reserve currency, and we have worked very hard to accomplish that with the major industrial nations of the world.

It is important that we have the same level playing field with respect to the newly industrialized countries, particularly of Asia, and we are working toward that end.

Mr. PEASE. Would you expect to see some change, say, during 1987, vis-a-vis our exchange rates with, say, Korea and Taiwan, to take two examples?

Secretary BAKER. Well, we have seen those currencies appreciate recently against the dollar in varying amounts, and we think that is primarily as a consequence of the fact that we have tried to work very quietly with them to accomplish that result.

Mr. PEASE. You recently agreed with Japanese Finance Minister Mayazawa, that the current yen-dollar exchange rate is, quote, "broadly consistent with underlying fundamentals." What considerations led you to agree that the current exchange rate of about 150 yen to the dollar is roughly appropriate?

Secretary BAKER. Is what?

Mr. PEASE. Is roughly appropriate?

Secretary BAKER. Well, you have to recognize, I think, Mr. Pease, that the yen has strengthened roughly 47 percent against the dollar since February of 1985 when the dollar reached its all-time high.

That is a pretty substantial strengthening of the yen. We have been working very hard to see the yen become more of an international currency so that we would not be penalized in our trading relationships with Japan.

When you have a country such as Japan whose growth rate depends so much on its external performance, at some point it becomes somewhat counterproductive to talk in terms of further exchange rate changes, or further exchange rate adjustment.

Furthermore, Mr. Pease, the Japanese Government took some macroeconomic policy actions which the U.S. Government had been anxious to see it take in order to increase domestic demand in Japan. It cut its discount rate, it adopted a supplemental budget of 3.6 trillion yen, I think, and it took some action with respect to tax reform.

Those are the kinds of macroeconomic policy actions we would like to see other surplus countries take, so that they can help us pick up some of the demand out there.

Mr. PEASE. Thank you. Mr. Secretary, in your testimony today, you have mentioned the importance of Federal fiscal deficit reduction as a factor in improving our trade situation.

About a third, or more, of the administration's budget proposals for a deficit reduction in fiscal year 1988 would come from the sale of Federal Government assets.

And the Council of Economic Advisers' Economic Report points out that the trade deficit is in large part driven by the imbalance between savings and investment in our economy, which is in turn driven by the Federal deficit.

There is some concern among economists that the sale of Federal Government assets as a way of deficit reduction does not help us in terms of our trade imbalance.

Would you agree with that?

Secretary BAKER. I think anything that we can do to reduce the fiscal deficit will help us with the trade deficit, Mr. Pease. I cannot tell you exactly how much, and I do not think economists generally are united on the extent to which the two are related, but they are related to some extent.

And any way in which we can reduce the fiscal deficit, short of increasing taxes, I think will help us with the trade deficit.

Mr. DORGAN [presiding]. The time of the gentleman from Ohio has expired. The Chair will recognize Mr. Gregg.

Mr. GREGG. Thank you, Mr. Chairman. It is a pleasure to have you here today, Mr. Secretary.

While you were running through your six-part program, I could not help but consider that, really, what you are describing is an incremental trade policy as compared to a more radical policy such as proposed by, for example, House bill 4800, which we dealt with last year. I think that the incremental policy which you are proposing makes a great deal more sense.

But I was wondering if you could give us some perspective on this \$150 billion trade deficit we are now running.

You mentioned that you felt it would be reduced by about \$20 billion as a result of the devaluation of the American dollar relative to our trading partners, especially Japan, Germany, and Italy. This means that for a \$20 billion drop in deficit, representing about 17 percent of the entire deficit, the American people would take a 40 percent cut in their buying power for Japanese goods and West German goods. That seems like a fairly high cost to the American people to get that \$20 billion. Do you wish to comment on that?

Secretary BAKER. May I respond. I think that, Mr. Gregg, ignores the question of what the trade deficit would be had we not seen the action that we have seen vis-a-vis exchange rates.

You cannot say that the exchange rate action is responsible only for, nor could you really say it is responsible for the full \$20 billion. Let's assume we get the full \$20 billion reduction in 1987.

I do not think it is fair to say that the exchange rate changes alone are responsible for that. I also do not think you could say that that is the sole extent of what those exchange rate changes might have done.

Mr. GREGG. So you are saying it would have gone up further?

Secretary BAKER. Well, I think that the trade deficit would have continued to climb, the way it has been climbing, had we not taken the action we have taken on exchange rates.

Mr. GREGG. Then we are left with \$130 billion, say, as a figure. What percentage of that \$130 billion do you ascribe to our inability to handle the Federal deficit?

Secretary BAKER. I cannot give you a percentage. All I can tell you is that I think that the trade deficit is affected by the fiscal deficit, and that there is some correlation there, but I cannot put a percentage on it.

Mr. GREGG. Mr. Penner was before our committee last week, and he commented that he thought the major driving force of the trade deficit, now that the dollar had been devalued, was the Federal deficit. Do you think it is a primary cause?

Secretary BAKER. I think it is a major factor, Mr. Gregg. I think weak foreign demand is a factor. There are a lot of factors. I think the Third World debt problem is a factor, but clearly, our own fiscal deficit is a major factor.

Mr. GREGG. Well, I would like to go through the other factors. What would you say the impact is of the LDC countries inability to purchase now? And what is the impact of their debt situation? And how do these relate to the Federal deficit?

Secretary BAKER. But I can't give you a percentage. Again, I think it is a contributing factor. I think foreign trade barriers are a factor, and we are continuing to do what we can to break those down.

I might say, Mr. Gregg, that contrary to general perception, this President has granted more import relief than any administration in 30 years. Not only that, he is the first President in the history of the Republic to self-initiate unfair trading cases, section 301 cases.

So, all these things contribute to our trade deficit and we need a comprehensive program to address all of the problems, including the fiscal deficit.

Mr. GREGG. Do you expect West Germany and Japan to cut their interest rates in the near future?

Secretary BAKER. I do not have any—you know, the Bundesbank just recently cut its discount rate. There are rumors of a discount rate cut in Japan but I have no personal knowledge that that is something that is going to happen in the near term.

They have got their discount rates down pretty low. Right now, I think they are 3 percent.

Mr. GREGG. If the Japanese economy started to accelerate, which you mention in your statement as essential to get the trade deficit under control, would they buy American goods?

Is there enough access to the Japanese market for American goods, such that we could participate in that acceleration fully?

Secretary BAKER. We would participate, Mr. Gregg, but there is not enough access for American goods in Japanese markets, and we need to continue to work, to break down foreign barriers to our goods in Japan, and elsewhere.

Mr. GREGG. Well, in order to break down foreign barriers, should we proceed on a targeted reciprocal basis, or should be just continue to use negotiation?

Secretary BAKER. It would best be done through negotiation, although the threat of retaliation is certainly appropriate, but mandated—as I indicated in my statement—mandated, strict, rigid retaliation within sectors would be counterproductive. We have made some progress in opening markets in Japan to cigarettes, to wine, to leather, and we have done that in part through threats of retaliation, and there is nothing inappropriate about threats of retaliation.

What we should avoid doing, if I may say so, is legislating, mandating strict requirements that would not permit us to trade across sectors in order to achieve market opening measures.

Mr. GREGG. They feel that the Japanese will as a culture, respond to American goods and purchase American goods if their markets are open?

Secretary BAKER. I think the Japanese are wrestling with a very difficult cultural problem, and that is the problem of adjusting their entire economy to the increase of domestic demand, and away from reliance totally upon external factors and external surpluses.

You are probably aware of the Maekawa Report which Prime Minister Nakasone commissioned which basically said the Japanese have to do that, but they are dealing with something that is ingrained into that culture and into that society, and it is going to take them some time to do it, but I really believe that they are working toward that end.

Mr. GREGG. If they have a cultural roadblock to purchasing American goods, I do not quite follow how nonreciprocal legislation, or legislation which does not specify reciprocity, is going to force action.

Secretary BAKER. It is not a roadblock toward the purchase of American goods, Mr. Gregg, so much as it is a roadblock which says that they are going to depend for their growth for the most part on external factors, and not on increased domestic demand.

Savings in Japan are exempt from taxes. If you save money you do not pay tax on it. Their whole society is oriented in this direction and they have got to change it, and I think they are beginning to realize that.

Mr. DORGAN. The time of the gentleman has expired. The Chair recognizes Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman.

Mr. Secretary, I am very excited about your opening statement, especially that part that deals with our need to be competitive.

It seems to me, that one of the political problems that we face in the Congress is a tendency, when we are going through an economic crisis, especially in trade, to blame it on preferential treatment to foreigners without really taking a look at the shortfall that we have in terms of untrained workers and lack of skills.

So, I assume, when you say in your statement, that this program is going to reach out to all workers, that you have some type of program that is going to deal with communities that have very high and sometimes historic unemployment that is directly related to the 50, 60, 70, 80 percent high school dropout rate, where you find communities where teenagers are suffering double the national average, and where clearly, these communities are dependent on

handouts, and grants, and stipends because they have no jobs, no training, no skills, and no hope.

And I am excited about this. How do you intend to do this? Who has the responsibility? Which Federal office is going to direct these programs?

Secretary BAKER. Well, Mr. Rangel, there are two programs primarily. One is the expenditure of \$800 million in job training funds which I suppose is under the authority of the Department of Labor, and the other is a \$980 million, almost \$1 billion program, for adjustment assistance for workers, which is likewise going to be administered by the Department of Labor.

Mr. RANGEL. Well, if you knew that in many communities over half the kids are not graduating from high school, would not this be a target in order for us to be competitive, that you would want to single out? I was less excited about your answer that you gave to Mr. Dorgan.

I have information that this administration's budget, when it comes to student loans, has been cut \$1.8 billion; Pell grants has been reduced \$1.2 billion; supplemental educational opportunity grants, \$412 million; college work study, \$592 million. And what we are talking about here, I think—vocational education, \$882 million.

What I want to do is to be able to go back home, and to say that this administration is now focusing in on those people who have not made a contribution to our economy, who are not working up to their skills, if they have any at all, and that we are going to have some program to get them back into the work place, doing a job for our country, and competing against foreign manufacturers.

Secretary BAKER. Well, Mr. Rangel, it seems to me you can do just that. You can go back and point to \$1.8 billion in funds which the administration is seeking from the Congress—

Mr. RANGEL. Is this tied into your enterprise zone concept you used to have?

Secretary BAKER. No, sir.

Mr. RANGEL. Do you still have that enterprise zone concept?

Secretary BAKER. The President supports the concept of enterprise zones. We have never, as you know, as yet come up with a way to get it passed up here, or a way to pay for it, but yes, we support it.

Mr. RANGEL. Is it in the budget at all, the enterprise zone?

Secretary BAKER. No, sir. No, sir. But there is \$1.8 billion specifically in the budget, specifically for job retraining and worker adjustment assistance.

Mr. RANGEL. Will this be operated through the Department of Labor?

Secretary BAKER. Yes, sir. I believe so.

Mr. RANGEL. Now you mentioned in your statement things that concerned education. Is the Department of Education involved in this program at all? Secretary Bennett? Would he know about what we are talking about this morning?

Secretary BAKER. Yes. I think he would know about it, and Secretary Bennett has testified up here in support of the budget cuts that the President is asking for in the Department of Education's budget.

Mr. RANGEL. I know that.

Secretary BAKER. But I do not think—and as I indicated in my answer to Mr. Dorgan—I do not think it is inconsistent to say that we ought to reexamine our educational system in the United States, and whether or not it is competitive with some of our trading—

Mr. RANGEL. I am not going to argue with you. All I am saying is you can cut what you want, and the Department of Education—I am not arguing with you—I am asking: does your program at all deal with education, and will not this Secretary of Education have any part of the program that you are testifying about this morning?

Secretary BAKER. Yes, sir. He will.

Mr. RANGEL. Now what piece of the program will he have—not what you have cut—but what you are actually supporting? What piece will Secretary Bennett have as relates to the education of—

Secretary BAKER. Secretary Bennett will be the Cabinet officer chiefly responsible for advancing the principle that we need to reexamine the educational system in the United States.

Mr. RANGEL. Great. Now how much money will he get for this reexamination?

Secretary BAKER. Well, I do not think it is a question of throwing money at it, Mr. Rangel.

Mr. RANGEL. No, no; don't throw the money.

Secretary BAKER. I understand what you are saying, but—

Mr. RANGEL. Mr. Secretary, don't do that to me. I do not want you to throw any money. We are talking about educating Americans to be able to have skills and training, and compete.

Secretary BAKER. That is right.

Mr. RANGEL. Now you are not going to tell me that the program is going to consist of Secretary Bennett looking at the educational system?

Secretary BAKER. I am going to tell you that the program is going to consist of using the bully pulpit of the executive branch of government to point out where we need to make changes, primarily at the State and local level, which is where 93 percent of all funding for education takes place in this country.

Mr. RANGEL. Well, you do not need any legislation for your program. All you people have to do is just study the problem and come up with an answer.

Secretary BAKER. Mr. Rangel, I am not asking you for legislation in the education area. I have not suggested that. But we are going to have a bill up here that will have about a thousand pages in it, and there will be a lot of legislation requested in a whole lot of other areas.

Mr. RANGEL. And so when you indicate that what you would like to do is bring skills to the work force, and retrain, and get our kids competitive, you want to do this but you do not want any money involved in it?

Secretary BAKER. Wrong. Wrong. Retrain and work force, \$1.8 billion.

Mr. RANGEL. What about the kids in high school that are dropping out?

Secretary BAKER. Well, as I indicated in my answer to Mr. Dorgan, the money that is going to be spent on those kids will be

greater this year than it was last year, primarily through State and local spending, which is a better place to—

Mr. RANGEL. But in your competition program, Secretary Bennett gets not one red nickel in order to make his contribution—

Secretary BAKER. It is not a question—I will get back to my original answer—it is not a question of throwing money at it as far as the education part of the package is concerned.

Mr. RANGEL. Thank you.

Chairman ROSTENKOWSKI. Mr. Levin.

Mr. LEVIN. Thank you. Mr. Secretary, as we all know, the import share of the U.S. market has been going up in vital areas. For example, autos, from 1977 to 1986, from about 9 percent to close to 25 percent; machine tools from about 15 percent to over 35 percent. So that, like autos, is more than a doubling of the imports' share.

Textiles also has about doubled from 13 percent to 25 percent, and steel, there has been a substantial increase. If we adopted everything you have proposed, what is your estimate as to what would be the imports' share of the U.S. market in these four vital areas, let's say in the year 1989 or 1990?

Secretary BAKER. Well, obviously, I cannot give you anything specific, Mr. Levin, but I think that the imports' share would decline because I think that you would see more demand abroad, and you would see less moving into the U.S. market.

In each of the industries which you mentioned—machine tools, automobiles, and textiles—we now have protection in place for American industry.

We have the multifiber agreement. We have got the VRA with respect to automobiles, and we have a negotiated voluntary restraint agreement with respect to machine tools.

So I think that if we adopted the entire competitiveness package that the President will be sending up, you would see those percentages go down, but I cannot tell you how much.

Mr. LEVIN. Have you worked out some possible paths? Do you have documents that trace the likely impact, and show where we would be in about 1989 or 1990?

Secretary BAKER. On those products.

Mr. LEVIN. Yes.

Secretary BAKER. No, sir; I do not, but the USTR might, and he will be here this afternoon.

Mr. LEVIN. You mentioned that you have protection in place, and I would just strongly suggest that you used the word protection. Somehow, protection is good and protectionism is bad, and I would just note that I am glad you used the word protection, because I think it shows that we should not be scared off simply by somebody saying it is protectionism.

Let me ask you, second, this question. On page 20, you say for the most part our trade laws have proven to be effective instruments for defending Americans against unfair trade practices on the part of our trading partners.

You say there are a few exceptions to that rule, but not many. Would you apply that description to our trading relationship with Japan?

Secretary BAKER. I think we have made considerable progress in the last couple of years, Mr. Levin, vis-a-vis our trading relation-

ship with Japan. We have, during that period of time, seen the yen become an international currency. That makes a big difference.

We have seen major changes in the exchange rate relationship. We have used the self-initiation of unfair trading cases—again, as I said before, the first President in the history of the Republic—

Mr. LEVIN. I understand that. I understand that. But your statement on 20, if I might just focus the question, says there are few exceptions to that rule but not many.

I just want to ask you very specifically—and give us a yes or no answer—would you apply that description to our trading relationships with Japan?

Secretary BAKER. Well, I think that I cannot give you a yes or no. I think I can answer your question, though, by saying we have still—as I indicated earlier—we have got a ways to go with Japan.

Mr. LEVIN. I understand that. But you describe I think part of the difference between the administration, and people, not only in Congress, but my constituents, and those in most every State, which relates to the depth of the problem. You come here and say that our laws have proven effective, defending Americans against unfair trading practices on the part of our trading partners. "There are a few exceptions to that rule, but not many."

And I am asking you specifically if you would apply that description to our trading relationships with Japan?

Secretary BAKER. There are exceptions—

Mr. LEVIN. A few exceptions.

Secretary BAKER [continuing]. In connection with our trading with Japan. Yes, sir.

Mr. LEVIN. But only a few?

Secretary BAKER. Well, I would not characterize it as many.

Mr. LEVIN. I think that that is one of the sources of disagreement.

Third, you say on page 21, that we have to resist sector-specific protections. You just mentioned machine tools, autos. We have a computer chip agreement, et cetera. Aren't those sector-specific protections?

Secretary BAKER. Yes, and when I used the word protection I was not blessing it, Mr. Levin, by the mere fact that I used it.

Those are sector-specific. Of course with textiles we have always had protection of one sort or another.

Mr. LEVIN. Those are in place, right?

Secretary BAKER. Yes, sir.

Mr. LEVIN. So, why is it sinful, if they are in place, and you support them—you have not undone them—why is it sinful to look at any further sector-specific protections?

Secretary BAKER. Because it makes it far more difficult to negotiate market-opening measures with other countries if we cannot trade across sectors. Let me give you an example: The EC enlargement issue which we just resolved with the EC. If we had been forced to do everything in the agricultural sector as opposed to being able to move, and to make a deal with the EC that involved the agricultural and industrial sector, we would never have reached agreement and we would right now be engaged in a rather significant trade war with the EC.

Mr. LEVIN. All right. One last question that relates to training. As I understand—

Secretary BAKER. Relates to what? I am sorry.

Mr. LEVIN. Training. Retraining.

Secretary BAKER. Training. Yes, sir.

Mr. LEVIN. As I understand the administration's proposal, it is for a \$900 million initiative, and I am not sure where you secure the \$1.8 billion figure.

Secretary BAKER. Well, there is \$980 million for worker adjustment assistance, and there is \$800 million, I believe it is, for job retraining. That is \$1.7 billion, roughly.

Mr. LEVIN. All right. I think we need to look at that because I did not realize those were separate initiatives.

Secretary BAKER. Yes, sir.

Mr. LEVIN. The worker adjustment provision is a retraining provision.

Secretary BAKER. I understand that, but those are separate initiatives.

Mr. LEVIN. Thank you.

Chairman ROSTENKOWSKI. Mr. Chandler.

[No response.]

Chairman ROSTENKOWSKI. Mr. Daub.

Mr. DAUB. Thank you, Mr. Chairman.

Mr. Secretary, I sometimes wonder about America. We have the largest export volume of any country in the world. We are therefore preeminent in that respect. We have taught the rest of the world our ideas about free and fair trade, and how to compete. We have taught the world marketing, sales, and promotion, and yet by virtue of exporting all these great free enterprise ideas, when some other country commences to do it to us, we scream like there is no tomorrow.

So it seems to me that the outline you bring to us of the six points you want to pursue, as Jud Gregg said, makes a good deal of sense. Because what we are trying to do is improve upon what we do best.

We have the deepest pockets in the world. We can finance. We are innovative; we are creative; and we are better marketers.

It also makes sense, to me, to focus on some of the other problems we redress legislatively.

For example, Japan encourages savings; we tax it. When you try to figure out how we could finance more growth out of equity instead of out of debt, we might take the opportunity to look at what we could do to enhance savings in this country and not tax or penalize Americans for saving as much. The ripple effect of all that might certainly help us be more competitive and deal with our trade problems.

Let me mention what I consider to be the toughest problem area: the nontariff trade barrier. I look at Japan, particularly with respect to research and development. I look at Canada, our neighbor to our immediate north, and how they tackle the problem of invading our markets with respect to patents and copyrights, and trade secrets with respect to pharmaceuticals. I look at the European Common Market with respect to how they treat agriculture, particularly wheat, feed grains, and soybeans. And I speculate on the

use nontariff trade barriers. Let me cite an example—and I could use Japan as the best example—wherein two or three companies decide that they want to invade American's shock absorber market.

Let's say three companies that could sell shock absorbers form a research and development company. The three companies that I am talking about now own that R&D company. There is no direct subsidy by the Government to the three companies, but there is a massive subsidy to the R&D company.

Later the three companies end up sharing, say, one-third each of the shock absorber market. This is after they have researched and perfected their tool—i.e., the shock absorber that can invade our market. And somehow they have this marvelous way of allocating the shock absorber market among their three companies. They compete with each other but they have an agreement on the division of the market, and none of the cost of the R&D is attributed to them.

How can we legislate against such non-tariff trade process?

Secretary BAKER. Well, Mr. Daub, I think of course there are some things that we can do as far as our own efforts at R&D are concerned, but that is not, I am sure, what you are talking about.

It seems to me that we could strengthen those provisions of our trade laws that have to do with subsidies. We have been extremely aggressive in terms of intellectual property rights.

As you know, we were successful at Punta del Este in getting those included in the Uruguay round. I think it is important that we continue to work in multilateral forums, and work bilaterally to prevent the kind of action that you are talking about.

I do not know that you can simply write a statute that would cover the situation automatically. What you really need to do is have the commitment on the part of the President of the United States, and I think, frankly, you have that on the part of this President.

Mr. DAUB. I think that is a sensible answer, Mr. Secretary.

Secretary BAKER. He has been, as I indicated before, and I want to say it again—the only President in our history to self-initiate unfair trade cases in cases such as you are talking about. We have the authority there in section 301. Now maybe we can tighten up the timeframes.

Maybe we can make some changes, as you put it, at the margin, and maybe we should, but the main thing is to have the commitment, and I think you have it.

Mr. DAUB. Mr. Secretary, the 301 and 201 history of this administration is a sign of its getting tough on trade, and I think it fits. I also think the textile agreements, and the threatened Portugal-Spain-EC corn gluten retaliation are further examples of that.

But I would highlight—and your answer is an appropriate one to me—that there is a nontariff trade barrier problem out there that is not the direct dumping, or the direct subsidy.

Secretary BAKER. That is correct.

Mr. DAUB. It is an engineering of a way around every step we might take here, and I would like to see you take a good look at that.

I wonder if you think we should export our Alaskan Shelf oil to Japan, Mr. Secretary?

Secretary BAKER. Cook Inlet oil or North Slope oil?

Mr. DAUB. It would be Prudhomme.

Secretary BAKER. Well, the administration's position of course is to export Cook Inlet oil. We have not taken a position—as far as I am aware—with respect to North Slope oil.

Mr. DAUB. Would that help our balance of trade with the five countries in the Asian area?

Secretary BAKER. Yes, sir, it would help our balance of trade, but the fact of the matter is, there is not sufficient political support for that move up here on the Hill to think that it has a realistic chance of success.

Mr. DAUB. We have lots of gasohol in the Midwest, Mr. Secretary, that could ease any consumer price increases that we might have in that regard.

Thank you for your testimony today.

Chairman ROSTENKOWSKI. Mr. Moody will inquire.

Mr. MOODY. Mr. Secretary, I certainly appreciate the general content and the tone of your statement today, and I look forward, in my own way, to working with your people.

I especially appreciate your efforts to relate the President's budget to our competitiveness in international trade.

In that vein I have several questions. No. 1, without getting into a debate again because this ground has been covered earlier in comments with Mr. Dorgan and Mr. Rangel—I find it hard to square your statement on page 4 on the need to master basic subjects in science and computers, et cetera, with the President's recommendation to zero out all the funds for vocational education in the budget.

No. 2, I appreciate very much your emphasis on regulatory reform here at home. You mentioned antitrust reform in that regard, but you are silent on the question of truck deregulation reform.

There is a great deal that needs to be done to improve our competitiveness in one of our major cost areas; namely, transportation.

The President has mentioned truck dereg reform which is badly needed, in one of his earlier State of the Union messages, but it has basically been dropped by this administration since then, as far as I can tell.

Do you have any comments on that?

Secretary BAKER. Well, no, sir; we support that, just like we support deregulation of natural gas, and we support deregulation of our financial services industries. So, there has been no change in the administration's position with respect to that.

Mr. Moody. All right. I hope to see some action from the administration on that. Thank you.

The other question I had regards the budget deficit. As you rightly mentioned, one of the key items for competitiveness is to bring that deficit down.

Now in the budget submission we have \$9 billion in asset sales for fiscal year 1988 as a way of covering the revenue side and meeting the Gramm-Rudman targets. We also have \$28 billion in asset sales over the 5-year period that we have been looking at.

But let me ask you: does that really do what we want to do in terms of international competitiveness? I think all economists

agree, that whatever the strength of the effect, the causal relationship is that excessive budget deficits soak up private savings that should be going into investing new capital to create a more creative and productive economy.

But when you sell an asset you are merely exchanging existing assets for a piece of paper, and in fact you are soaking up those private funds that would be available otherwise to go into capital formation.

So if you sell a loan portfolio, for example, you do nothing to reduce the economic reason for bringing the budget deficit down to make us more competitive. You may have changed the book balance in terms of the Federal revenue flow, but in terms of competitiveness, you do nothing.

In fact, if anything, you soak up funds that should be going to capital formation. And in the long-term, while you have improved your revenue picture this year, you make your revenue picture worse in the outyears because those portfolios are not yielding revenues later on.

So it seems to me, if the budget deficit is a multiyear problem and not just a 1-year problem, and if you are talking about freeing up funds to go into capital investment, this is the opposite of what we should be doing.

Secretary BAKER. Mr. Moody, I do not argue with your conclusion, but I will say this. I think that selling assets to reduce the fiscal deficit certainly does not hurt the competitiveness position of the United States.

There are many, many things we need to do. One of them is to reduce the fiscal deficit. There are other ways that we have suggested in our budget to reduce the fiscal deficit which would help our competitiveness significantly, and one of them is to cut spending by \$18 or \$19 billion.

You are quite right, that asset sales this year do not translate into savings in the outyears. Asset sales in the outyears would. So I do not think there is a lot of difference between us, but that is not to say that we ought not to go ahead and sell some of these assets.

Mr. MOODY. But you agree, it does nothing for our international trade competitiveness? You say it does——

Secretary BAKER. Well, no, I do not agree with that because I think it does something. I realize the economic argument that it sops up money from the private sector——

Mr. MOODY. Just like taxes would. Exactly the same effect——

Secretary BAKER. Yes. Borrowing—if you want to argue that, I suppose. But I would not agree that it does nothing, because I think anything that brings the fiscal deficit down will help us from the standpoint of our trade competitiveness, frankly.

Mr. MOODY. Would not taxes have exactly the same effect? They would soak up some private money and bring down the deficit.

Secretary BAKER. It would not have the same effect to the extent that taxes would impair economic performance in this country to an extent that selling some assets does not.

Mr. MOODY. So the goal is to find out taxes which do not impair economic performance?

Secretary BAKER. Well, taxes are a charge on growth.

Mr. MOODY. But they produce a benefit; namely, reducing the deficit. Selling assets is——

Secretary BAKER. Selling assets——

Mr. MOODY [continuing]. Like you are saying, it is another form of taxation.

Secretary BAKER. Selling assets produces a benefit as well. It is not a permanent revenue stream, that is the difference, and it means that whatever restraint is there for further Federal spending remains there.

The minute we start talking about raising taxes, Mr. Moody, whatever discipline there is up here, or downtown, for cutting Federal spending will evaporate, because it is a lot easier to raise taxes than it is to cut spending.

Mr. MOODY. So you are talking outyears, but you are not talking outyears when it comes to selling assets, which decreases revenue——

Secretary BAKER. Well, we ought to take these years 1 year at a time. I mean, I realize that we are required to project 5 years out, but I would argue with you that nobody can be very close to accurate on what is going to happen 5 years out.

So, if we can get real deficit reduction by selling assets that the Federal Government has no need for, and we have got \$155 billion of paper in the Federal Financing Bank, some of which is of questionable value, if we could get 50 cents on the dollar for that paper and reduce the deficit for 1988, I do not see why we do not do it.

Mr. MOODY. But that would thereby increase the deficit for 1989 and 1990, and thereafter. Meanwhile we have done nothing to free up private funds for investment.

Secretary BAKER. I think we ought to address 1990, 1992, and 1990 and 1992.

Mr. MOODY. I thought this was a multiyear problem of competitiveness. I did not know it was a 1-year problem.

Secretary BAKER. Well, competitiveness is, but it does not seem to me that we have got to be hung up on what might happen 5 years down the road in wrestling with the very thorny issue, Mr. Moody, of how we are going to cut the fiscal deficit, if we get too caught up in projections that are 5 years down the road.

Mr. MOODY. Well, I am talking about 1989 as well, not just 5 years.

Let the record show you do not disagree that selling assets does nothing to free up private investable funds which is what we want to do for competitiveness. I do not think you have disagreed with that statement.

Secretary BAKER. That is correct, I do not, but let the record also show that I think it would be a step in the right direction to sell assets and reduce the fiscal deficit, a step in the right direction toward a more competitive America. But I agree with your first statement.

Chairman ROSTENKOWSKI. Mr. Pickle.

Mr. PICKLE. Thank you, Mr. Chairman.

Mr. Secretary, it is good to have you with us this morning. I want to make one or two observations to begin with.

Let me start off by saying to you that—and I think you agree—we are going to have a trade bill this year.

Secretary BAKER. Yes, sir.

Mr. PICKLE. The House and the Senate are going to pass a bill. I hope we can work together so that we can pass and put into law these changes we know that are necessary. If we do not do it on a bipartisan basis, then this Congress is going to be facing another veto, and the American public, particularly the businessmen, are going to be terribly upset about the uncertainty that exists.

So we ought to keep in mind that we are going to have a trade bill. Second, I look at our problem as a matter of enforcement of our trade laws.

It seems to me it is a question of whether we enforce the laws that we have on the books today, particularly section 301.

Now you may contend that we do. But if we just enforce those laws, that is not protectionism, that is enforcing the laws that we have on the books.

Now, you say this President has initiated more 301 cases than ever before, and that may be so. I think we ought to give him credit, but we also have got to recognize that imports have increased four and five times what they have ever been, at least in the last 40 years.

So what he has done really is just kept us in the ballgame, I will give him credit, but I do not think I am going to mount his picture on the wall, and give him a gold medal as an Olympic giant killer on trade matters—not yet—but I do think he has helped, and that we have a lot to do on it yet.

Now, the last observation I want to make is this: That I am willing to work with you, and I think every Member of the Congress is, on this question of competitiveness. We ought to be willing to do so.

So I think you will find the Congress supportive. But the main thing we have got to do is reduce this trade deficit, and I think we ought to, quote, "keep our eye on the sparrow," or the "raven" as you might call it, because the deficit is eating us up.

So I am going to say to you that I will work with you on the competitiveness issue and I am willing to discuss it, but I do not want to get diverted by the competitiveness issue. We have got to do something about this trade deficit.

Now, having said that, let me ask you two or three questions. No. 1, the administration's initiative—and you have said it, you have repeated it—seeks legal and regulatory stability for research and development in the R&D tax credit. I am just trying to find out from you, what do you mean by that?

Do you mean that we ought to keep the R&D tax credit as was put in the 1986 tax bill? Do you mean to make it permanent or enact it for a longer period of time than 3 years?

Secretary BAKER. Mr. Pickle, what I mean by that is that we ought to stop the practice we have heretofore followed of addressing the question of the R&D tax credit just before it expires so that we give our businesses and industries an opportunity to plan. And all we are asking is that we start this process earlier, that we address the question of the R&D tax credit, that we address the questions of section 861 allocation of R&D, because we think that is extremely important to the competitive position of America.

Mr. PICKLE. I hope we can do that. The measure we passed extended the credit through 1988, and that is almost upon us. So I

think we should address it early on. I do not know how, but I think it is a problem.

Secretary BAKER. Well, yes, sir. And, further, the section 861 issue comes up on August the 7 of this year, as you know.

Mr. PICKLE. Yes, that is correct.

Now, next, Mr. Secretary, I want to ask you if you can tell me what we can expect the administration will do to force Japan to uphold the semiconductor agreement that we signed in August 1986. Japan agreed to give us access to the Japanese market and to abide by the antidumping included in the agreement.

Now, I notice that Ambassador Yeutter—and I will address this question to him later—has said that Japan is not living up to the agreement. Apparently, they are not.

So I am asking you what will the administration do come April about this particular case?

Secretary BAKER. Which case are you talking about, Mr. Pickle?

Mr. PICKLE. I am talking about the semiconductor case where they reached an agreement that Japan would open its market and stop dumping. Ambassador Yeutter says they have not. I ought to address this to him, but I am asking you.

Are you prepared to say what the administration will do if Japan does not live up to their agreement?

Secretary BAKER. Well, that is an issue that we will address in the Economic Policy Council. I think it is probably a question better directed to Ambassador Yeutter.

Let me just say to you that it is our view in the administration that we have got to be tough with Japan. There is no doubt about that. We have pursued, as I mentioned earlier, a number of successful 301 cases against them involving leather and cigarettes. We have got antidumping cases involving semiconductors, and I suppose that may be the one you are talking about.

Mr. PICKLE. No. I am referring to the 301 case.

Secretary BAKER. And if they do not live up to their agreements, then we are going to have to take some further action.

Mr. PICKLE. Well, now, included in the President's competitive initiative is a proposal to amend 301 and establish a 24-month deadline on disputed settlement cases.

Now, under current law, you have around 15 to 16 months. The Congress last session gave USTR 9 months, and the President 30-days within which to implement action.

Now, we are saying we are going to cut that time down and reduce the period of negotiations and consultations. You are saying that you need 24 months. It looks to me like we are going in opposite directions.

Secretary BAKER. Mr. Pickle, let me just, if I might, echo your remarks about how important it is that we work together to craft legislation that will make America more productive.

We really want to do that. Our strategy is different than it was last year. That is no secret. And we want to work with you, and this is the kind of issue, it seems to me, we can work together on and somehow resolve it, come to a joint position.

Mr. PICKLE. Well, I hope we can.

Somewhere along the line, I am going to watch. I may even want to introduce what I call an "ah so" amendment. Japan says yes,

they are going to agree with this and they are going to do this; they are going to stop the dumping, they are going to do the whole thing. And they say "ah so" and then they go right ahead and don't carry it through. So I am saying to you, we are going to have to stop that, and I do not know how. I hope we can work with the administration.

Now, let me ask you one last thing because my time is running out. I want to ask you, your initiative also proposes reform to anti-dumping and a countervailing duty law. Now, are you willing to provide for increased use of the authority to impose retroactive duties?

My problem is that our trading partners will dump goods on us, and an ITC case is filed, and then for a year or 2 years, as those great bodies deliberate and GATT stumbles along, the goods flood into the U.S. market and we have no relief. Or if they are not flooding our country, they go sell them to Spain or France or somewhere else, so we do not have a market.

Now, once those cases are settled——

Secretary BAKER. Yes, sir.

Mr. PICKLE [continuing]. Are you prepared to impose retroactive duties?

Secretary BAKER. Mr. Pickle, I am advised that it is already possible, to the extent that you get a preliminary finding and then people have to post bond, to cover the consequences of dumping in the interim. And we have not, as far as I know, taken a position with respect to that particular provision.

But let me simply say to you that is something we would be willing to consider.

Mr. PICKLE. That is good. I am encouraged.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Schulze will inquire.

Mr. SCHULZE. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. The Chair would like to point out that we have Ambassador Yeutter waiting, and we are starting to work under some time constraints.

Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

Mr. Secretary, welcome to the committee. It is a pleasure to again have the opportunity to talk trade policy with you, and I would like to talk about long-range trade policy for a minute.

It seems to me that in the formulation of trade policy we are so fractionalized within the Government, within the administration, that it is difficult to have a strong central adviser on trade policy, since you must listen to State, Agriculture, Defense, Commerce, and USTR.

Do you have any feeling about where we should be 10 years from now or around the turn of the century in trade policy? When I look at it, I say that we cannot go on the way we are. We have to make some changes. I wonder if you agree with that and can give us guidance on a direction in which we should go?

Secretary BAKER. Well, I am not sure I understand what your question is, Congressman Schulze. Do you mean should we have a Department of Trade and Industry?

Mr. SCHULZE. No. I do not care what you call it. I guess what I am saying is should we, with the growing importance of international trade to our economy and the interdependence of the economies of the world, have a stronger, centralized trade function? A man who would be involved with the national security aspects of trade, with the agricultural aspects, commercial aspects, with the foreign—rather than have all of these out in the various secretarial positions, have them centralized and have a little more input?

Secretary BAKER. I do not see how you would do that. You have a Special Trade Representative of the President who is responsible for negotiating our trade agreements. It seems to me you have to have, Mr. Schulze, Presidential involvement because trade cuts across all areas.

Mr. SCHULZE. Yes. I agree with Presidential involvement, but it seems to me that when decisions are made on formulating a tax bill, he is not involved. And nothing could be more crucial to our trade policy, in my opinion, than tax policy. But the STR is not involved with tax policy. I think that his input would be important in that area.

I think when we are talking about agriculture, either the subsidization of agriculture or the lack thereof, and the eventual sales overseas, that he should be vitally involved with that.

Secretary BAKER. Well, let me suggest that he is involved to the extent that those issues come before the Economic Policy Council, which is the coordinating body in the executive branch that deals with all domestic and international economic issues. The U.S. Trade Representative, as well as the Secretary of Commerce, are both members of that body, attend all the meetings, and are directly involved in those issues.

Mr. SCHULZE. Then you think the setup that we have is fine and we are going in the right direction?

Secretary BAKER. I think it—

Mr. SCHULZE. I think we part company there. I think that things are so messed up we have got to do something.

Secretary BAKER. No, Mr. Schulze. I must say, I was here once before back in 1975 and 1976. I have been here now, as you know, 6 years, and I really do believe the coordinating mechanism is better now than it has been in my prior incarnation.

Mr. SCHULZE. I do not disagree with that. What I am saying is where are we going, and I think that we must have a stronger posture. I do not care whether there is a Department of Trade or a Department of Commerce or just a strengthened position within the USTR or Commerce. But somehow we have got to have a greater input in the trade area.

OK. Now, it seems to me that trade has gone beyond the theoretical aspect and has become a political problem. Let me give you one small example as to why it is a political problem.

During the fall, as all of us have to do, it is obligatory to take plant tours. I was touring one plant that makes a little device that works as follows: when a bank is being robbed, it provides a little pack of fake money that you give to the bank robber. This fake money is triggered such that in 3 to 5 minutes after the robber leaves the bank, it either explodes with tear gas or dye. I am sure you are familiar with the product.

Secretary BAKER. Not personally. [Laughter.]

Mr. SCHULZE. I am glad to hear that.

This product is sold in most parts of the world, but it has been absolutely impossible to gain access to the Japanese market.

Now, I do not understand how cultural reasons get involved with preventing bank robberies or apprehension of bank robbers. What I am saying is this lack of market access creates a political problem, because every employee in that plant now feels that trade is an issue and that their jobs are being jeopardized because of trade. And we must have a way to gain what I call—you know that I have coined a new phrase; rather than reciprocity, I like symmetrical access—symmetrical access to other nations.

We must have a way, a nonsectoral way—I agree with you there—to say that if you do not take what we produce best and what is competitive in the world, then we are going to limit your symmetrical access to our market. I would like to have your feeling on that.

Secretary BAKER. I quite agree with that. We need to have the threat of retaliation, but we should not fall into the trap of sectoral reciprocity and we should not fall into the trap of trying to mandate or legislate action to be taken. We ought to leave it to the flexibility of your trade negotiator.

Mr. SCHULZE. If we limit the President's discretion in this area, do we not, in effect, give him a tool? I know you are not going to like this, but do we not, in effect, say: Look, we realize you have cultural problems and political problems, but Congress has tied our hands and you have to do something. Would that not give the negotiators an additional tool to work with in these international relations?

Secretary BAKER. No, Mr. Schulze. I really do not agree with that. I think it would make it harder for us to use the threat of retaliation to get market-opening action on the part of other countries. I really believe that.

Mr. SCHULZE. Well, but we have not seen any success in Japan and some other countries.

Secretary BAKER. I disagree.

Mr. SCHULZE. We have not seen enough success.

Secretary BAKER. Not enough to satisfy a lot of people when we are running a \$150 billion trade deficit. And I quite agree with you that it is a major political problem; it is also an economic problem.

Mr. SCHULZE. We have had an awful lot of talk. We have talked with the Japanese for years. But they have steadfastly refused to make meaningful openings, except in cigarettes, which we spent a lot of time talking about and cigarettes are only one product.

Secretary BAKER. We have had a lot of action recently, in the last 2 years, Mr. Schulze.

Chairman ROSTENKOWSKI. Mr. Stark.

[No response.]

Chairman ROSTENKOWSKI. Mr. Matsui.

Mr. MATSUI. Mr. Secretary, in terms of the issue of rice that you had mentioned in your opening comments that the Japanese look upon rice as being somewhat sacred to their culture, and it is a very difficult issue for the administration.

At the same time, if we are going to adhere to the theory of comparative advantage, it would seem to me that we should do everything we can to open up the market to U.S. rice because we are talking about the United States having a higher quality rice, which is produced in the central valley of California.

Second, the Japanese consumers are paying approximately 10 times more for their domestic rice than it would cost if they imported rice from California.

It seems to me that the administration should use this as a real test rather than saying it is a sacred issue. We can argue that autos are a sacred issue as far as the United States is concerned because of the jobs are lost.

Secretary BAKER. Mr. Matsui, I do not disagree with that at all, and there is no excuse—none whatsoever—for the policy that they are following with respect to rice.

It was our view that a section 301 case would not be successful and that we would have a better chance of opening that market to American rice through the Uruguay round process, because we are going to have to deal in that process with agricultural subsidies and with the worldwide glut of commodities, agricultural commodities.

So that was a judgment call that we made. I am not defending the Japanese practice with respect to rice to one iota.

Mr. MATSUI. Well, it would seem to me that rather than wait for the general GATT negotiations in which all commodities are negotiated, and rice could very easily be traded off, now is the time to make our move on this issue.

Why is it that we want to wait rather than act at this time?

Secretary BAKER. Well, the judgment was simply that we did not think it would be successful.

Mr. MATSUI. Is that because we do not have any leverage?

Secretary BAKER. No. I think we have some leverage, and we have been using that leverage in the instances that I have outlined for you. I mentioned the exchange, the fact that the yen is now more of an international currency. I have mentioned the section 301 cases that we have filed against Japan successfully. I have mentioned the situations where we have threatened action and gotten some results.

It was simply a conclusion internally that this would not be one that carried a great likelihood of success.

Mr. MATSUI. Mr. Secretary, the things you have been talking about really are not points of leverage. In any negotiations you have to threaten to take some action in order for the Japanese to open up their markets. They are concerned about the increase in value of the yen as opposed to the dollar. You need to be more direct in terms of negotiations.

We are not going to be successful if we keep talking about the drop in the value of the dollar.

Secretary BAKER. I would argue that that is not a long-term issue in their eyes, Mr. Matsui. But I think you ought to really address the question, perhaps, to Ambassador Yeutter when he gets here, and I think his answer would be the same as mine.

We opted not to initiate a section 301. All we did was simply conclude that we had other 301's that we thought offered better opportunities for success and we went with those other 301's.

Mr. MATSUI. Well, I cannot think of a more classic case than that of rice. If we are talking about comparative advantage, this is a classic case.

Secretary BAKER. You are right.

Mr. MATSUI. Let's address another area. One of the problems that I have with the whole idea of the drop in the value of the dollar and the strengthening of the yen and the mark is that it won't really have any appreciable effect on the trade deficit without coordination with our monetary policy. We do not really get involved in monetary policy in terms of the exchange rate, and the trade deficit.

Do you have any thoughts on this issue?

Secretary BAKER. Yes, sir. That is simply not true. We do get involved in a discussion of monetary policy. When we meet as a G-5 or as a G-7, the issue of monetary policy is thoroughly discussed. We have central bank governors with us, and it is a part of the discussions, just like exchange rates are a part of the discussion.

Mr. MATSUI. Well, how does Volcker and the Fed policy play a role in trade policy? I very rarely hear them discuss trade policy in terms of loosening or tightening the monetary policy as it pertains to the value of the dollar.

Secretary BAKER. Well, they do not talk a lot about what they do in terms of either loosening or tightening monetary policy for other reasons.

Mr. MATSUI. The Germans do. When they drop the discount rate, they immediately talk about the monetary changes. And that usually has the effect of giving the financial markets the impression that nothing is going to happen. Why do we not begin to talk about that? Maybe we should take it more seriously.

Secretary BAKER. I think you ought to address that question to Chairman Volcker.

Mr. MATSUI. How well do you think your Third World debt proposal is working at this time?

Secretary BAKER. Well, as I indicated in my summary statement, Mr. Matsui, we think that we are making progress. This is a problem that did not arise overnight, and we are not going to cure it overnight. And we had better disabuse ourselves of the idea that we are going to.

The fact of the matter is that many nations, many debtor nations are adopting free market reforms of their economies. The multilateral institutions, as I indicated in my statement, are stepping forth and doing a great deal more, particularly the World Bank. And there has been some evidence that commercial bank lending is beginning to materialize in the case of Mexico, in the case of Nigeria and in the case of Ecuador.

So I think that the program is making some progress.

Mr. MATSUI. Have you had any further thoughts on Senator Bradley's proposal to reduce the burden of Third World debtor countries?

Secretary BAKER. No, sir, I have not. I do not think that is the route to go.

In the first place, I think Government mandating losses to private financial institutions is foreign to our philosophy and beliefs in this country, for one thing.

Second, I think the minute that you mandate debt relief governmentally, you are going to cut those countries off from access to the private financial markets.

The only solution to the debt problem is growth. In order to grow, they are going to have to have access to capital flows, either equity or debt.

Mr. MATSUI. Thank you.

Chairman ROSTENKOWSKI. Mr. Thomas.

Mr. THOMAS. Thank you for coming, Mr. Secretary.

Mr. Secretary, do you believe that Americans have any unique or inherent advantages, whether it be in market innovation or any other area? I mean inherent to us as unique individuals.

Secretary BAKER. Well, I think we have had an economic system and a political system as well, Mr. Thomas, that has been extremely successful over a 200-year period.

Mr. THOMAS. But if others copy it and utilize key factors in it, then they also ought to be pretty good in marketing and innovation and other areas.

Secretary BAKER. You are quite right. Some have copied it, and some have done very well.

Mr. THOMAS. So that if we try to console ourselves in thinking that we have particular uniquenesses that no one else can copy, that probably is not a very healthy mental set?

Secretary BAKER. I would agree with that, but I think that at the same time what I hear you saying is we have got to continually re-examine ourselves and our institutions, make certain that we remain competitive.

Mr. THOMAS. That is precisely the direction I think that you indicated that we have got to go as we rethink these. And, of course, it is a question of degree.

I also enjoy people who try to put a particular percentage on any particular factor in terms of the way in which it might influence the balance of payments. I remember several years ago sitting in Secretary Darman's office with some fellows who happened to be in cotton at the time, and they were simply begging for a 25-percent adjustment, because if that would occur, then their problems would be alleviated. And here 2 years later we have a 40-percent adjustment, and we have not seen the kind of shifts that take place.

I do not think there is any single thing that we can do, nor do we know what kind of a timeframe under which we are operating, except that the longer we do nothing, for sure, the more the problems continue. What I would like to see is an attempt on the part of the administration, and on page 17 of your testimony you indicated some initiatives that we were taking. Can you give me a prioritizing of those in terms of which you think are most important? And, second, which are most likely to occur first?

Secretary BAKER. Mr. Thomas, we are not going to solve the competitiveness problem of the United States unless we have a comprehensive approach. That is basically what we are suggesting, and as I indicated to you, we are going to be sending a great big package up here within the next 10 days to 2 weeks and asking for a lot of

legislation. We have got to attack this problem across the board, just as you suggest.

I do not have that page before me——

Mr. THOMAS. That is fine. That can be submitted later.

Let me indicate to you that, for example, in the 301 area, it is true that this administration initiated more 301 cases than any administration in history. But—and I wonder if you would agree with this—that route was taken in part as a defensive measure because you were unwilling to support various other far more extreme measures that could have been taken. For example do you agree that with various industrial sectors, such as citrus with the EC, pursuing 301 cases for almost decades, and previous administrations and, to a degree, this administration, in not taking the kind of aggressive action that we thought was necessary, this has led us to try to lock into a legislative procedure to get the administration to take a position?

Secretary BAKER. That is correct. That is an absolutely correct analysis, in my view, Mr. Thomas. The point is, I think that we can make some changes that will be helpful in our trade laws, but for the most part, we have got a lot of laws on the books which we have been using, I think, for a period of 18 months to 2 years; and we ought to continue to use those and use them aggressively and not fall into the trap of trying to legislate protectionism.

Mr. THOMAS. I understand that. But if you agree that it was initially a defensive measure, can you indicate to me that you have gotten with the spirit of the fact that it is an unfair world out there, and this is not something that will cease when the pressure is relieved?

Secretary BAKER. I think it may be going too far to say it was a defensive measure, but I would indicate to you that we are sending up a very comprehensive competitiveness package that attacks this problem across the board, not just by trade laws.

Furthermore, we have been doing some things for quite a while that attack the problem across the board in the international economic policy area, in the area of exchange rates and so forth.

So you are quite right; you cannot look at this as simply a trade problem. It is not. It is far bigger than that, and it has to be addressed in a more comprehensive way.

Mr. THOMAS. Then, finally, very quickly, you are comfortable with the unit 152-154; that is a good location?

Secretary BAKER. I do not comment, Mr. Thomas, on what the appropriate level might or might not be for our currency versus any other currencies.

Mr. THOMAS. You are not unhappy with that?

Secretary BAKER. I do not comment on it.

Mr. THOMAS. And the deutsche mark at 180-181, you do not comment on that either?

Secretary BAKER. If I made a comment, then you or somebody else up here would be saying, "Good gracious, look here, you are talking the dollar down." And I am not doing that, so I do not comment on it.

Mr. THOMAS. Mr. Secretary, I would like to applaud your non-comments. I think they have been very influential.

Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman.

Thank you for your testimony, Mr. Secretary.

Several years ago, I know that the ITC in a footwear case, made some recommendations about the possibility of import licensing here. Of course, we have not followed through, and the committee may be looking at that again.

Has the Treasury Department taken any definitive position on the possibility of import licensing?

Secretary BAKER. You mean auctioning quotas, Mr. Jenkins?

Mr. JENKINS. Yes. Right.

Secretary BAKER. Well, clearly, from the standpoint of the Secretary of the Treasury, it might be a great thing because it would help us with our deficit and—

Mr. JENKINS. Thank you, Mr. Secretary.

Secretary BAKER [continuing]. Some have said it is an economist's dream but a bureaucrat's nightmare. We have not taken a position on it.

There is a serious question about whether it violates our international obligations.

Mr. JENKINS. Thank you very much.

I do not know if I am clear on it, but are you going to take another look at it?

Secretary BAKER. There is some strong sentiment against it within the administration, but we have not taken a formal position on it. Clearly, we would be willing to take a look at it.

May I just add, Mr. Jenkins, we would not be able to favor it to the extent that it did violate international agreements, obviously.

Mr. JENKINS. I guess all of us attempt to simplify trade problems like we do other problems. I would probably have a tendency to ask you if we are better off today with the trade deficit than we were 6 years ago?

Secretary BAKER. We are better off economically, generally speaking, in this country than we were 6 years ago by a long shot.

Mr. JENKINS. Because of the trade deficit, have we been able to keep inflation down? Is that part of it?

Secretary BAKER. No. I do not know that I would go that far. I cannot tell you that we are better off from a trade standpoint because, clearly, we are not.

Mr. JENKINS. Let me ask you about the recommendations that you are making in the field of education and other members have pursued this.

Is this \$1.8 billion for new programs? Is this new spending?

Secretary BAKER. The \$1.8 billion in job training and displaced workers, as far as I know, are new programs, yes, sir.

Mr. JENKINS. That is a good start. If we are going to have \$1.8 billion of new money for training, but I do not think that is correct.

Secretary BAKER. Well, I do not know what you mean by new money. You said two things: new programs and new money. We have new programs, but I think you really ought to ask this question of the Secretary of Labor. I think some of the money comes out of other programs that the Labor Department thinks should be terminated, not necessarily job training or worker adjustment. But that is really something that I have to admit to you is not some-

thing that I am the best witness on. OMB or Labor would be the best witness on that.

Mr. JENKINS. I guess maybe I will withhold questions in that area because I wanted to ask you what we were going to retrain them to do.

Secretary BAKER. Mr. Jenkins, the Secretary of Labor has been up here and testified, I think, on this before other committees.

Mr. JENKINS. All right. You have specifically alluded to the textile bill that was vetoed last year as a direction that you do not want to go. I think part of these questions have already been directed to you on industry specific areas such as the textile bill.

We already have quota bills and voluntary agreements that are quotas, are they not?

Secretary BAKER. We do.

Mr. JENKINS. So there is nothing new about a quota bill, is there?

Secretary BAKER. We ought not to move to this generally, Mr. Jenkins, or we will see a general move, in my view, toward more and more protectionism, the closing of markets worldwide, and a shrinking of worldwide trade to our distinct disadvantage.

Mr. JENKINS. We have just entered into an agreement, have we not, dealing with machine tools?

Secretary BAKER. That is correct. Much too late to satisfy some of the members of this panel, but yes, we have on national security grounds.

Mr. JENKINS. We have restraint agreements dealing with steel.

Secretary BAKER. That is correct. Textiles.

Mr. JENKINS. Oh, well, I thought that was off limits.

Secretary BAKER. You have always been protected—

Mr. JENKINS. I thought it was just textiles that we could not talk about.

Secretary BAKER. You have always been protected, Mr. Jenkins, in the textile industry.

Mr. JENKINS. Well, not really to the degree that it ought to be, but certainly more than this administration would like, I am sure, based upon its past performances in textiles.

Secretary BAKER. Well, Mr. Jenkins, this administration is the one that negotiated the renewal of the MFA, which I am sure you have some problems with, but which on the whole I think was a very successful negotiation and should offer further protection to the textile industry, to the extent that that is a goal.

Mr. JENKINS. Basically, you have no objection to quotas so long as you have the flexibility yourself to impose them?

Secretary BAKER. We do not favor them because when you take it too far, Mr. Jenkins, you will foreclose the opportunities for world trade.

As we start closing our markets here, others will start closing their markets to us, and the fact of the matter is retaliation is simply not cost free. It costs something.

Mr. JENKINS. What if we have a global quota system where we do not have any rollbacks, that we look to the future? Is there any problem with that?

Secretary BAKER. It is not the best approach.

Mr. JENKINS. I understand it is not the best approach, but it may be the only available approach that we have.

Secretary BAKER. Well, I do not know what you are suggesting. I mean, when you say your global quota, what, in just one specific industry?

Mr. JENKINS. Yes. It is the one that I am talking about now.

Secretary BAKER. The point is I think we have laws on the books that permit this kind of action in appropriate cases. The administration has taken action in cases deemed to be appropriate. Someone has to make the determination of when that action is appropriate and when it is not. That someone really ought to be the President of the United States.

Mr. JENKINS. Well, we could delegate that, of course, to the President.

Chairman ROSTENKOWSKI. The time of the gentleman has expired.

Mr. Downey.

Mr. DOWNEY. Thank you, Mr. Chairman.

Mr. Secretary, in general, I think that you are one of this administration's finest Cabinet officers. I also believe that this administration has been, for the most part, right on trade and right on resisting the congressional attempts that have been made to impose quotas. I think you are absolutely correct in suggesting that if we were to start quotas in any one sector of the economy, it would be difficult to resist them in others; and it would certainly invite retaliation.

But I feel that your legacy and ours is not going to be a fond one for history because, rhetorically, I would rename, if I could, your Department the Secretary of Debt and the Department of Debt. It is debt that we need to be concerned about not only in the domestic sphere, but in the international sphere. And it seems to me that we, through cute rhetorical devices—and I do not blame you because my party and my colleagues are as much to blame about them as the President is—have ignored this problem.

Now, from 1914 through 1984, the United States was a net creditor nation. We now owe more to the rest of the world than we earn overseas. If current trends continue, we will owe as a net debtor some \$700 billion by 1990. You might argue that current trends will not continue, that that \$700 billion may be less. I certainly hope that it is.

But it is certainly going to be a large sum.

In order to pay it off, we will ultimately have to run something of a trade surplus, and that trade surplus is most likely to come, I would imagine, not from agriculture, not from service, but from manufacturing.

I would ask you humbly, as a public servant that I respect, how you think it will be possible between now and 1990 for the economy of the United States to run trade surpluses to even the accounts in order to begin to turn around the current imbalances in what we are borrowing from abroad? Do you believe realistically that that is possible?

Secretary BAKER. Well, let me agree with you that we need to do it, and that is why I say, and have said for many, many months, Mr. Downey, that the trade deficit of the United States is not only politically unsustainable, it is economically unsustainable. And we have got to turn it around.

As I mentioned in my answer to Mr. Thomas, we are not going to turn it around unless we take a comprehensive approach. I think I might disagree with you to one extent. I am not at all sure that it has to be turned around through manufacturing.

The fact of the matter is that, while productivity is, indeed, down in the United States, manufacturing productivity is not all that far down. I think it is going to have to be a combination of manufacturing and service exports. It is a question of our current account deficit, frankly, not our merchandise trade deficit as, indeed, you would agree.

So I think we have got to do it. We have no alternative. We have just got to find a way to make it work.

Mr. DOWNEY. Let us talk about revenue for a moment. I forget the basic standard Republican line—and maybe you can tell me what it is.

Secretary BAKER. I will give it to you. We are taxed at a rate of 19 percent of GNP today, which has historically and traditionally been the rate at which we have raised revenues in this country; but we are spending at the rate of 24 percent of GNP.

Mr. DOWNEY. That spending, if I am not mistaken, is a result of the increased deficit, payments on the debt, which have increased most dramatically since this President has taken office, and in the past—certainly not in the last 2 years—increased spending on defense. Defense spending has been held in check.

Secretary BAKER. Both of those are part of it.

Mr. DOWNEY. Clearly.

If the Budget Committee were to suggest to you that there be an outlay freeze. If the administration wanted to spend more on defense, then it would have to raise the revenue separately to do that, set aside that amount. The theory would be that the domestic side of the ledger has gone down, and that there is no new revenue and it is not going to increase. Therefore, if you want to increase defense spending by as much as the administration wants to, then you are going to have to raise revenue to pay for it. We cannot continue to demand the services that people demand from our Government, whether it is 24 percent of GNP or 23 percent of GNP, and only raise 19 percent of the revenue.

Is it a viable idea that if the President wants more money for a particular items in the budget that he be required to come up with the money from increased revenue sources to pay for it?

Secretary BAKER. Well, I do not think it is viable in the context in which you put the question, Mr. Downey, because the fact of the matter is domestic spending has been growing at a far greater rate over the past 10 to 15 years or 20 years than has defense spending.

Defense spending in the Kennedy administration, for instance, was 49 percent of the Federal budget, or something like that. If we got the 3 percent real growth we are asking for this year, we would only be at 29 percent.

So the real mushrooming programs, if I may say so, have been over on the domestic side. Yes, we have increased defense spending.

So in that context, I do not think that is a viable approach.

Mr. DOWNEY. Well, I repeat my respect for you, and it is out of that respect that I would urge you to take a look at that clever notion that during the Kennedy administration we spent x percent

on defense. That was during an administration when Social Security was not a unified portion of the budget. So, of course, defense as a percentage of the budget was much higher than it was.

And I would urge you also to take a look at defense not so much from—and we are quibbling when I think this capital is slowly burning. It is burning under the hot flame of foreign and domestic debt, and we are talking in circles about the problem. We need to raise revenue. I am prepared to vote for it. So are most of my Democratic colleagues. And I urge you as someone who has the ear of the President, who is a sensible human being and, in my opinion, a fine policymaker, to wake him up so that he can confront the reality that we are not paying our bills, and to do it quickly.

Secretary BAKER. Mr. Downey, I hear what you are saying, but let me just submit to you that this year for the first time we have more revenues in our budget reduction plan than we do spending cuts. And the Congress for some reason or another wants to pick apart and nit-pick those revenues. It says, "Well, we cannot have asset sales. They do not do this or they do not do that." Those are revenue and receipt items. We have got \$22 billion worth of them that we are asking for. All we ask is that you legislate them. We are only asking for \$18 billion in spending reductions.

So we have come around in terms of changing the makeup of our deficit request to the Congress, and changing it dramatically.

Mr. DOWNEY. Thank you, Mr. Secretary.

Chairman ROSTENKOWSKI. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman. I welcome you to the committee, Mr. Secretary.

I would ask unanimous consent, Mr. Chairman, that I might ask the Secretary some questions with his responses provided at a later date for the record in writing.

[See page 148.]

Chairman ROSTENKOWSKI. Without objection.

Mr. CRANE. Thank you, Mr. Chairman.

One of these questions, Mr. Secretary, deals with Treasury's assessment of the 1986 tax reform bill showing the cost of capital for investment, equipment, and machinery being reduced. Back on March 12 of last year, Under Secretary Mentz provided me with a study that indicated that both Treasury II and the House bill that we had under consideration, before we completed the conference, would have, on the contrary, increased the cost of capital.

I was wondering, first of all, if you could provide me with a study using the same parameters as Mr. Mentz used to evaluate the impact of the 1986 tax bill with regard to the cost of capital.

One of the things that strikes me in evaluating this total trade problem is that our Tax Code, and the reforms especially, in my estimation—and not just my assessment, but also econometric studies of the tax bill—suggest that the cost of capital, at least in the short term, was going to go up. This certainly does not work in favor of increasing the ability of American business to be competitive.

Another component of the tax bill, the shift of the \$121 billion from individuals to business, seems to me to constitute an additional load at an inauspicious time. In your testimony, you talked

about improving our research and development. We negatively treated R&D credits in that tax bill.

Would it be in your estimation a desirable thing to perhaps reconsider what we did on R&D credits as a means of trying to improve our technological capabilities?

Secretary BAKER. Well, first of all, Mr. Crane, let me say that we will try and get you the study and the figures that you have asked for, the comparative figures.

With respect to R&D, as I indicated in an earlier answer, what we think is important is that we at least begin the process of reexamining this R&D tax credit, which is scheduled to expire in 1988, sooner than we normally do, so that business and industry can plan and know, so that our private sector will know whether or not there is going to be an R&D tax credit out there, either on a permanent basis or whether it is going to be 20 percent, or the 25 percent, quite frankly, that the administration asked for in our tax reform proposal.

We also think we ought to take a look at the section 861 allocation of R&D between foreign and domestic income as far as our companies are concerned, and that, quite frankly, expires some time in August of this year. So it is required that we take a look at that.

We are suggesting that we begin that process now. We have not taken a position with respect to what we think ought to be done, but we are suggesting that we and you and the private sector get together and examine these questions.

Mr. CRANE. Mr. Secretary, when Mr. Mentz was before the committee on budgetary considerations, one of the calls we heard from my colleagues on the other side of the aisle was revenue increases, tax increases as a means of addressing it, a point Mr. Downey just made.

In the Treasury report that was published in 1985, they were commenting on the increase in venture capital that came about with a reduction in capital gains. We went 49, as I recall, to 40, and then Billy Steiger got it to 28 and then we went to 20 in the 1981 tax bill. Contrary to some expectations, this actually increased revenues on the one hand and, in addition to that, dramatically increased venture capital. Now we are moving in the opposite direction, and Treasury has projected a \$21.8 billion increase in revenues from that source.

Now, Mr. Mentz suggested that a big portion of that \$21.8 billion has already presumably been realized, with people cashing in on the maximum 20 percent rate in fiscal year 1987 after October 1 of last year and before December 31.

Would not that suggest that we should reverse what we did in capital gains treatment? In fact, some responsible studies suggest taking it down as low as 16 percent. What would you consider to be the optimum level? Would you consider taking another look at our treatment of capital gains based upon the historic record as a revenue source on the one hand, but simultaneously achieving increases in venture capital on the other?

Secretary BAKER. It might suggest that, Congressman Crane, and I might go further and say that the absence of a capital gains differential in tax reform was one of the big disappointments to us.

But you got to take the bill as a whole, so we were disappointed with respect to that.

However, I think it is extremely important that we not get into the business—and we all talked about this in this very room here last year—that we do not get into the business of reopening the Tax Reform Act of 1986.

People talk about the need for certainty. The minute you reopen it for capital gains you are going to have it reopened for a whole host of other things.

Mr. CRANE. Well, Mr. Secretary, do you think that bill is set in cement and perpetuity and will not be reopened?

Secretary BAKER. No. I really do not, but I do think we ought to have a period, a cooling off period here, and we ought to cool it on major changes in the tax code for a while.

Mr. CRANE. Well, I appreciate what you are saying. However, when historic experience, as in the case of capital gains treatment, suggests that it is a revenue raiser, and all history suggests that, plus it achieves other desirable objectives, then I think we should reach some agreement that here is a way of raising revenue, addressing budget deficits, and also helping increase our competitive position.

Secretary BAKER. I am not sure that the Joint Tax Committee or, for that matter, the tax analysis staff at the Treasury Department would agree that it would, in fact, raise revenue.

Mr. CRANE. Well, that has been their historic position every time we lowered it.

Secretary BAKER. That is right.

Mr. CRANE. One final question, and you may not readily have the information available. Is it correct that our total trade exports constitute no more than three percent of our GNP?

Secretary BAKER. No more than 3 percent?

Mr. CRANE. Three percent.

Secretary BAKER. Just a minute.

[Pause.]

Secretary BAKER. We think it is higher. I will get you the figure. U.S. exports in 1986 were about 5.2 percent of GNP.

Mr. CRANE. All right. My other question has to do with a statement that Under Secretary Bruce Smart made before the committee last year and Mr. Yeutter said it is within the ballpark. That is, is it true that if we had total free trade worldwide, it would have no more than 10 to 20 percent impact on our trade deficit?

Secretary BAKER. Well, I have not seen any such study to that effect. I would suggest you ask Mr. Yeutter that question.

Chairman ROSTENKOWSKI. Mr. Secretary, I am working under some terrible time constraints here. I have Ambassador Yeutter yet to come on, and I have three more members that want to interrogate.

I am going to suggest, Mr. Crane, that if you want the Secretary to answer those questions, please submit them in writing. And, Mr. Secretary, will you please answer those questions in writing.

Mrs. Kennelly.

Mrs. KENNELLY. Thank you, Mr. Chairman.

It is always a pleasure to see you, Mr. Secretary.

Just for the record, on page 4 of your testimony, I see the figure of \$1 billion for worker adjustment program, and that is the only place I can find any figures. So I would just like to go on the record asking where the 1.7 or 1.8 comes from, hoping it does not come from job training for youth or something like that.

Secretary BAKER. Well, let me just say one more time that there is \$1.7 billion in the President's budget. If you look through the budget document, you will see exactly where it is and exactly where it comes from.

I cannot answer exactly where it comes from because I am not the Secretary of Labor.

Mrs. KENNELLY. Thank you, Mr. Secretary.

Mr. Secretary, throughout my years in Congress, every time I go to a business meeting with businessmen and women, someone comes to me after the meeting complaining about our export rules and regulations.

Yesterday, Secretary of Commerce Baldrige had some excellent statements saying we had gone too far, and he more or less was referring what will come down in your trade package concerning simplifying these regulations. Yet at the same time Under Secretary Perle opposes those solutions.

I would like to ask you where your sympathies lie, and to go further and say I hope that we can resolve these difficulties. No businessman or woman is going to get involved in exporting if the Defense Department is fighting them.

Secretary BAKER. Well, Mrs. Kennelly, let me just say that my view is that we should do everything we can to rationalize and simplify our export control procedures, that we need to liberalize them. We are making efforts to do that internally within the administration. There is major progress on that front.

I think you will see when the President's competitiveness package arrives up here in ten days or so that we will be suggesting some rather significant changes in export control procedures with which I will agree.

Mrs. KENNELLY. Thank you, Mr. Secretary. Nice to see you again.

Chairman ROSTENKOWSKI. Mr. Andrews.

Mr. ANDREWS. Thank you.

Mr. Secretary, I would just like you to, if you would, clarify a little bit your response to Congressman Moody and Congressman Downey.

Do I understand you to say that in terms of the outyears you are not prepared to look at any additional taxes to reach the Gramm-Rudman targets? Is that correct?

Secretary BAKER. No additional over and above what you might see in the President's budget, that is correct.

Mr. ANDREWS. Would you give us your thoughts, please, about how we get to those targets in the outyears without additional taxes?

Secretary BAKER. Yes, I will give you my thoughts. Enact the President's budget. That will get you to those targets in 1988, and it will get you very, very close to those targets in the outyears, within \$20 billion or so. And I would submit that in a \$1 trillion

budget we ought to be able to find \$20 billion of additional spending cuts.

Mr. ANDREWS. Mr. Secretary, do you think there is adequate support on the Hill for the budget the President has just submitted, and that it is going to be realistically considered by the Congress?

Secretary BAKER. I think it will be realistically considered, Mr. Andrews, because it represents a significant departure from the practice the administration has followed heretofore in sending up here nothing but domestic spending reductions.

As I indicated earlier, we have got \$22 billion in receipt items, and they ought to be fairly and dispassionately considered and not simply rejected because somehow they are a user fee instead of a broad-based tax, or that they are a sale of assets rather than some broad-based tax.

Mr. ANDREWS. I agree with you in part, but I think what Mr. Moody and myself are curious about are the outyears, not necessarily next year, but the outyears. How do we go get those revenues?

Secretary BAKER. Well, we have got a difference of opinion between OMB and CBO with respect to the numbers. It is about a \$19 billion difference in fiscal 1988. We happen to think our growth figures are more accurate than CBO's, and it will remain to be seen who is right.

We have been right sometimes and wrong sometimes. We have been on the low side twice out of these 6 years and on the high side four times.

So I think the way to go get them—let us use our numbers for a minute—is to say that in a trillion dollar budget you can find an additional \$20 billion in spending cuts. That is roughly what we missed those targets by in the outyears.

Mr. ANDREWS. One more area. Under the Trade Adjustment Assistance Program, heretofore most oil and gas workers have not been covered, as I understand it. Give us your thoughts, please, about the competitive package of the President and how those kinds of workers, which number about a hundred thousand now, will be treated.

Secretary BAKER. Well, the President's program, as I understand it, will not talk about trade adjustment assistance or will not be specifically limited to workers dislocated as a consequence of trade imbalances. It will be an overall across-the-board worker adjustment assistance program, and I would support from that that it would include workers in the energy industry. But, again, that is a question that should be directed to the Secretary of Labor.

Mr. ANDREWS. Senator Bentsen's bill, his trade bill, covers oil and gas workers that have been displaced. I wonder personally what is your judgment about that provision in general terms. Do you favor it?

Secretary BAKER. I imagine you have got a pretty good idea what my answer on that would be.

Mr. ANDREWS. I just want to hear you say it.

Secretary BAKER. I do not see any reason why we should single them out for exclusion.

Mr. ANDREWS. Thank you, Mr. Secretary.

Chairman ROSTENKOWSKI. Thank you very much, Mr. Secretary. We appreciate the fact that you have taken the time to share with us your thoughts on this very important matter.

Secretary BAKER. Thank you.

[Subsequently, the following questions and answers were submitted for the record:]

COMMITTEE ON WAYS AND MEANS,
Washington, DC, March 20, 1987.

HON. JAMES A. BAKER III,
Secretary of the Treasury,
Washington, DC.

DEAR MR. SECRETARY: Enclosed are questions submitted by members of the Committee on Ways and Means to which they would appreciate answers for the printed record of the hearing held on February 10.

Thank you for your prompt response.

At the direction of the Chairman.

Sincerely yours,

JOSEPH K. DOWLEY,
Chief Counsel.

Enclosures.

QUESTIONS FOR SECRETARY BAKER AND AMBASSADOR YEUTTER FROM CONGRESSMAN
ANTHONY

1. What steps could be taken to broaden trade negotiations beyond similar trade items? Would not a more equitable result follow from a practice whereby U.S. farm products could be placed in a discussion along with Japanese electronics or automobiles, rather than limiting them to negotiations for Japanese farm products only?

2. Some countries may not place actual quotas on items we export, but use an unreasonable labeling or quality requirement which has the effect of trade restrictions. How might the U.S. better counter measures by trading partners whose regulations, on their face, appear neutral, but in their application affects discrimination against U.S. products.

3. What steps, such as export payment in kind, can be used to reward cooperative trade partners?

4. How can the U.S. increase trade of value-added and high-value exports?

5. How can the U.S. expand trade into developing countries?

6. How can the interests of U.S. agriculture be better tied to those of the State Department to guarantee that American farm exports will not suffer as a result of U.S. foreign policy?

[See p. 191 for answers.]

QUESTION FOR SECRETARY BAKER FROM MR. ANDREWS

Houston Port Problems with U.S. Customs Service

As you may know, the Houston Port, which is in my district, is a major entry point in this country for imports. My Houston office has received numerous complaints from U.S. companies concerning the U.S. Customs Service processing of imports through the Houston Port. The process is apparently painfully slow. My staff has been told that there are excessive regulations contributing to the cumbersome process. According to reports, U.S. companies are avoiding the Houston Port because of these problems with the Customs Service. My staff is currently attempting to work with the Houston office of the U.S. Customs Service to resolve this problem.

Question.—Will you please comment on this situation? Will you work with me to streamline the process and open lines of communication with the Customs Service in Houston? What specific measures will the national office take to improve the process in Houston?

Answer: I share your concerns regarding Customs efforts to facilitate the processing of commercial cargo in the Port of Houston, while ensuring that the trade laws and regulations of the United States are fully enforced. First, I would like to point out that Customs is now implementing a number of new programs and procedures in Houston. These new programs apply to all major seaports throughout the United States, and it is the belief of the Treasury Department and Customs that these programs will ultimately improve the overall facilitation of cargo.

Several of the programs presently being implemented in the Port of Houston call for the centralization of cargo examinations, container devannings, and document presentation, as well as the use of automatic manifest and selectivity systems. Through broader use of the automated selectivity system, Customs is utilizing electronically transmitted entry information and manifest information to release cargo without the need for physical examination of the cargo. The overall thrust of these programs is to make possible the release of low-risk cargo quickly and efficiently. This will thereby afford Customs the time and staffing necessary to physically examine high-risk cargo more intensively. Implementation of these programs is not restricted to the nation's seaports. The centralization of various Customs activities is also being accomplished at airports and land border ports in order to use staff and equipment resources more efficiently.

An optional program, which is now offered at most seaports, allows carriers to present to Customs a vessel manifest prior to actual carrier arrival. Once the manifest is provided to U.S. Customs and reviewed for enforcement purposes, Customs will then process the related entry documentation.

Utilizing the pre-arrival manifest and entry processing procedures a Customs entry may be processed for cargo entering the United States up to five days prior to the arrival of the importing carrier. Certain restrictions do apply. To make sure the advance manifest is truly representative of what is on the vessel, Customs will accept the advance manifest, only if it is assured that the vessel has already left its final port. At the time an entry is processed, if it is determined that the cargo is low-risk, the Customs Broker is notified that the cargo has a provisional release from Customs. Once the vessel arrives, and there are no holds on a given shipment, the cargo can move directly from the dock to consignee or directly from the dock to an intermodal system for transit.

The national Customs policy on Centralized Examination Stations (CES's) was issued as Customs Directives 3270-03, on January 5, 1987. This directive establishes CESs as facilities where customs will perform detailed examinations involving partial-to-total devanning of containerized shipments based on an identified risk for narcotics, fraud, prohibited and/or restricted importations, or based on a random selection for intensive examination as part of the Automated Commercial System (ACS) Selectivity Module. At present 80 percent of imported cargo is released from Customs custody through the use of the automated selectivity system, based on entry and manifest information.

All U.S. Customs regional and district managers have been assigned to coordinate the selection of CESs with as wide a cross-section of the importing community as possible. Prior to establishing the CES policy, U.S. Customs Headquarters met with the American Association of Port Authorities (AAPA) and the National Council on International Trade Documentation (NCITD) in order to evaluate the impact of this policy direction. Meetings have been held in Houston with the trade community, and Customs will continue to encourage the trade community to assist us in determining the number of CESs as well as their locations. The final determination as to CES designation is the responsibility of the Houston District Director, who in conjunction with the trade, will designate the smallest number of CESs that are operationally necessary.

Although our objective is to realize the strongest degree of centralization possible, the Customs Service will ensure that the number of CESs will be able to adequately handle the workload and traffic. It is a primary selection criteria that location and potential traffic problems be considered when a CES is designated.

By providing personnel resources saved through centralization, Customs will be able to better process entry documentation, thereby facilitating the flow of low-risk cargo. This will provide the necessary staff and equipment needed to perform quality examinations on high-risk cargo. Through the use of this concept the trade should realize faster overall turnaround times.

The Treasury Department shares your concerns about any possible economic impact of any of our proposed programs. I will work with you to keep communication with the Customs Service in Houston open. The U.S. Customs Service will continue to meet with the trade on these topics and will take into consideration their views.

QUESTIONS FOR THE RECORD FROM MR. CRANE TO THE SECRETARY OF THE TREASURY

Question 1. Mr. Secretary, I understand your apprehension that any reopening of the Internal Revenue Code might unravel the tax reform package. However, I am quite concerned that the tax reform bill crafted by the Conference Committee on H.R. 3838, while answering the President's call for low marginal rates, failed to in-

clude many of the pro-competitive tax changes proposed by the Administration in both the President's package and the Treasury Department's November, 1984, package. Would you please provide for the record, a list of the proposals, such as a capital gains tax rate of 17.5% and the expansion of IRAs in order to encourage savings, as advanced in either the President's package or the initial Treasury plan, but were not in the conference report.

Answer. The most important pro-savings and pro-investment provisions proposed by the Administration but omitted from the Tax Reform Act of 1986 (TRA) were:

(1) The lower rate (17.5 percent maximum) on capital gains and indexing for inflation after 1991;

(2) The indexing of depreciation for inflation;

(3) Expansion of IRA's to spouses working at home.

The absence of these provisions from TRA is at least partially offset by TRA's lower top marginal tax rate. A low marginal tax rate is one of the best ways to promote saving and investment. As you know, the Administration strongly supported H.R. 3838 as an overall legislative package that we believe was in the overall economic best interests of the United States.

Question 2. Mr. Secretary, the tax reform act of 1986 increased the tax cost of U.S. business by more than \$121 billion over the next five years. While this increased tax burden was balanced by a similar reduction in individual income taxes over the same period, would not this tax cut for individuals and increased costs on U.S. business only encourage domestic demand for imports since foreign businesses do not have that \$121 billion tax increase levied upon them?

Answer. Reductions in individual income taxes can indirectly offset the effect of higher corporate taxes on business costs. For example, because of lower personal taxes on investment income, individuals may be willing to accept lower pre-tax rates of return, which would lower companies' cost of capital. We should not let those studies which find that Japanese companies have an advantage in capital costs base their conclusions on lower borrowing costs and lower taxes at the personal level, not at the corporate level.

The Treasury Department's evaluation of the Tax Reform Act finds that it will have a very modest effect on trade patterns. Any impact would be overwhelmed by normal changes in exchange rates and other cost factors.

Question 3. Mr. Secretary, given the 1986 Tax Reform Act, which sectors of our economy have been most impacted, that is, which industries have had to absorb the greatest increase in taxation and still compete with our foreign trading partners?

Answer. There are several reasons why comparing the change in Federal tax receipts by industry may be misleading. First there are significant problems in classifying individual firms into specific industries. For example, some firms operate in several different industries, and some groups of firms operating in different industries file consolidated tax returns.

Second, non-corporate businesses should be included in an industry breakdown, but the change in tax liability of non-corporate business income will occur on individual income tax returns. Similarly, lower taxes paid on corporate dividends will occur on individual income tax returns.

Third, the accuracy of the estimation procedures declines when attention is focused on relatively narrow sectors of the economy.

Finally, the actual impact of TRA cannot always be measured by the change in tax liabilities. For example, while the taxes paid by the banking industry will increase, this will be due in part to the substitution by the banks of taxable securities for tax-exempt securities in their investment portfolios. Such substitution would occur if the taxable securities provided a greater after-tax yield than the tax-exempt securities. Thus, after the portfolio reallocation, bank's after-tax income is likely to remain unchanged, or actually might increase, despite greater Federal tax liability.

Chairman ROSTENKOWSKI. Welcome to the committee, Ambassador Yeutter.

You are aware, and I want to alert my committee members that we have some time constraints. I appreciate the fact that you are taking your time to join us this morning, or this afternoon.

I would just like to suggest to my colleagues if their questions are lengthy, you might consider submitting them to the Ambassador in writing for response at some future time.

Having said that, Clayton, it is nice to have you here with us. We know that your schedule is one that is very hurried, and we appre-

ciate your participating in this discussion. You may begin your testimony, Mr. Ambassador.

**STATEMENT OF HON. CLAYTON YEUTTER, U.S. TRADE
REPRESENTATIVE**

Ambassador YEUTTER. Okay. Thank you very much, Mr. Chairman.

I am going to reduce my——

Chairman ROSTENKOWSKI. Without objection, Mr. Ambassador, your entire statement will be included in the record.

Ambassador YEUTTER. I am going to cut back my opening remarks too in the interest of time, because I know you have been going 2 hours and 15 minutes already. So I will hit a couple of points very quickly, and then give everybody a chance to get into some questions.

I want to make one reference to my prepared text. We did a lot of work on the discussion of capital flows and the exchange rate question, and the whole question of relationships of capital flows to trade flows and so on in my prepared text. I commend it to your reading when you have an opportunity to do so because that is really the heart of this issue, as you well know. Secretary Baker talked about it at length this morning so I am not going to go into it. But I hope you will take the time to read some of my prepared comments on that subject, because it is such an important issue.

Second, I want to agree with comments apparently made earlier by Secretary Baker that we are likely to get an improvement in the trade outlook in 1987. I am convinced that is going to be the case, not as much as any of us would like, but it will be helpful to see the trends go in the right direction for a change. And I am convinced that is going to happen.

Third, Mr. Chairman, I am pleased that we are all going to move off into a discussion of competitiveness throughout this year.

And I am pleased that we seem to have changed the thrust on that subject, not only in the thinking of the U.S. Congress, which is reflected in some of the questions that you had this morning, Mr. Chairman, but also within the administration. And that is why we are coming over, as Secretary Baker indicated, with a very extensive work product on competitiveness and trade. And we can obviously get more into that at a later time.

I sense, Mr. Chairman, that there is less protectionism rampant in the country today than there was a year ago. I am not sure about that, but we will find out, of course, as this debate unfolds over the next few months. But it seems to me that attitudinally we made some progress in the last year, and that people are looking at this issue in a more constructive way than they were, and they are not looking for simple easy answers and quick fixes which, of course, are just not available.

Although this is a relatively small piece of the trade deficit pie, I hope it is evident to everybody by now that we have followed a lot more aggressive trade policy over the past couple of years than we have in the past, and that we are taking some very rugged stances on trade issues. I still keep reading comments by some Members of the Congress where we, the United States, are not being tough

enough on trade issues, and the reason we have to pass a tough trade bill is because we need this in order to get the administration to be tougher on trade.

Well, Mr. Chairman, I am not sure how we can get much tougher than we have been over the last 18 or 24 months. I will share with you just one little anecdote on that point. I did a speech in Los Angeles, CA, about 10 days ago, and I pulled up to the hotel where I was going to deliver the speech, and there were a whole host of demonstrators out in front of the hotel. I think it was the first time I have faced so many demonstrators since I became USTR, and they were carrying signs that said "Save NATO, dump Yeutter." [Laughter.] And the connection, of course, was the fact that we were, in the last 48 hours, in negotiations on our dispute with the European Community over the accession of Spain and Portugal, and they were fearful we were going to have a trade war with the Community, and it was going to destroy NATO.

So there is a fine line that we walk on this issue of toughness, as you can see, and some people think we have been too far to the tough side.

Finally, I would just say, Mr. Chairman, that I am confident that we can pass constructive trade legislation this year if we work at it cooperatively on a bipartisan basis. That is, Democrats and Republicans alike here on Capitol Hill and working, both of you, with us. Certainly we are willing, as Secretary Baker indicated, and the portent of our trade legislative package that will be available in a couple of weeks will indicate that, and I really believe it's a constructive package, a credible one, and one that will do some good in a very positive way on the trade front.

So I hope we will meet with similar response on the House side.

The only caveat I would put to that, Mr. Chairman, is that we can have a serious bipartisan effort in this area if we have unrealistic timetables, and my judgment is that the timetable has been articulated by the speaker simply does not fall in the realistic category. As Secretary Baker indicated, we will have a package over here that will be somewhere between 1,500 and 2,000 pages in length on all of the competitiveness trade issues. The trade part of the package alone is probably going to be a thousand pages in length. And we think all of that is a very serious effort to make a significant contribution to this arena, and we cannot devalue that and debate it over a year with this committee or other committees in a couple of days or a couple of weeks. It really deserves serious consideration, and I think your own efforts deserve serious consideration.

So, let's have a prompt timetable. Nobody wants to stall the process, Mr. Chairman, but I hope we will not have an unrealistic timetable.

Finally, I would just say there are a couple of things that have changed since I testified on this subject a year ago, and there are changes that need to be considered in the legislative process.

One is the fact that we now have a new multilateral round of trade negotiations underway, the Uruguay round, which was launched last September, as you know, in our meetings in Punta del Este. That means that we have a vehicle, Mr. Chairman, to

deal with some problems on a multilateral basis that was not available to us prior to last September.

And there are some elements of H.R. 3 that clearly have multilateral dimensions, and it ought to be dealt with more appropriately in the Uruguay round than in a legislative package. And I would hope, Mr. Chairman, that this committee will give serious consideration of pulling some of those items out of H.R. 3 and permit them to be dealt with in a negotiating forum rather than a legislative forum. I will be glad to be more specific on that at a later time if you would like.

And finally I would say as a part of this philosophizing on the content of the bill itself that we ought to avoid GATT illegal measures. One of our strongest criticisms of H.R. 4800 a year ago, as you know, Mr. Chairman, was the fact that it had a lot of provisions that are GATT illegal. Now, the response I get from some people here on the Hill is so what? Other people violate the GATT too. Why shouldn't we? And clearly one can make a case for that kind of argument. But, in my judgment, it is specious. We ought to set a better example than that for the world, and we ought to try to get the rest of the world to abide by the GATT rather than flagrantly violate it ourselves.

There are a lot of provisions in H.R. 3, Mr. Chairman, that could be corrected to become GATT legal instead of GATT illegal. Some of this is just simply drafting. In some cases, there are major differences of views on the issues. But, in some cases, it is just as easy to draft a GATT-legal provision as it is to draft a GATT-illegal provision. And I would hope that as you move toward markup of this legislation that we try to ferret out the GATT-illegal provisions and either correct them or abandon them.

That is enough, I believe, in the introductory remarks, Mr. Chairman. Let's go to questions.

[The prepared statement follows:]

TESTIMONY OF
AMBASSADOR CLAYTON YEUTTER
UNITED STATES TRADE REPRESENTATIVE

BEFORE THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

FEBRUARY 10, 1987

Mr. Chairman and members of the Committee, I am pleased to appear before you today to discuss U.S. trade policy and the trade deficit. This hearing takes place one month after the introduction of H.R. 3, the trade provisions of which are identical to those in H.R. 4800 passed by the House last year. I know you are all aware of the views of the Administration on those provisions, and I do not intend to belabor them here this morning.

I am very pleased with the bipartisan cooperation members of this Committee have shown in their desire to craft responsible, effective trade legislation in 1987. The Administration looks forward to working with you throughout that process. Our bill will be before you shortly. In developing that bill, we were guided by several overarching considerations. For example, we considered whether each proposal would:

- o facilitate the competitiveness of U.S. industry,
- o conform to our international obligations,
- o enhance our leverage in the Uruguay Round and in other international trade negotiations,
- o provoke costly retaliation against U.S. exports, or
- o invite our trading partners to enact mirror legislation, to the detriment of U.S. exports.

These are the same tests we will apply in considering proposals emanating from the Congress.

Let us turn now to one of our most challenging national problems - the trade deficit.

The U.S. Trade Deficit

In 1986, the United States had a merchandise trade deficit of \$169.8 billion. The deficit has grown as a consequence of rising imports in recent years while exports have been essentially unchanged (Table 1). In 1986, imports were 7 percent higher than in 1985 and up over 50 percent from 1980. Rising imports were to be expected following 1982, when America's economy began expanding again. Of greater concern is that during this same period exports have remained flat, rising only about 2 percent this past year, and they still remain slightly below their 1980 level.

The 1986 merchandise trade deficit grew vis-a-vis virtually every major U.S. trading partner (Table 2). In dollar terms, the biggest shifts occurred in trade with the European Community and Japan, but countries such as Korea and Taiwan now also have major surpluses with us. In terms of product components, changes in our manufactures trade dwarf any other shift. In manufactures, there has been a net swing of -\$158 billion since 1980.

As the U.S. merchandise trade deficit has worsened, so has the current account deficit, which for 1986 (on the basis of three

quarters' data) is estimated to be about \$140 billion. The 1986 current account deficit was 19 percent larger than in 1985. As recently as 1981, we had a current account surplus of \$6.3 billion. The current account is the broadest measure of our international trade, including not only the merchandise trade balance but also the balance on trade in services, investment earnings and transfers.

The deterioration in America's trade and current account balances should concern all of us. However, before we try to "do something" we ought to understand just what the problem is. We will see a permanent turnaround in our trade and current account balances only if we take actions which address their real causes, rather than their perceived causes.

The growth in the current account deficit is, by definition, the mirror image of the growth in net foreign capital imports (Table 3). In recent years, we have gone from being a large net capital lender to a substantial net capital borrower. Between 1982 and 1986, we borrowed almost \$420 billion more than we loaned overseas. In other words, our problems are as much capital related as they are trade related.

Let me briefly explain how the current account deficit mirrors our net foreign capital imports. Over the last few years, foreign lenders and investors have found the United States a particularly attractive haven for their funds. Sustained, noninflationary growth; relatively low taxes; business deregulation; and relatively high real interest rates have all helped to attract foreign funds.

In order to invest or lend here, however, foreigners have to purchase dollars in foreign exchange markets. That strong external demand caused a substantial appreciation in the dollar's value during the first half of the 1980s. That appreciation, in turn, was a major factor in our large trade and current account deficits. After all, not many Americans give dollars to foreigners so that the latter can invest here. Foreigners earn those dollars by selling us goods and services.

Our trade and current account deficits supply the dollars purchased by foreigners in foreign exchange markets to invest here. Under the flexible exchange rate system, the value of the dollar moves whenever necessary to equate the value of capital inflows with the current account deficit. Conversely, there is no way for our current account deficit to decline without a corresponding reduction in our net capital inflows (our net foreign borrowing).

The fundamental question then is why are we borrowing so much from overseas. The answer is that our national pool of savings (the positive savings of private households, corporations and state and local governments) is insufficient to meet the combined expenditure demands of private investment plus the large federal budget deficit. The gap (3.3 percent of GDP in 1986) between domestic savings, on the one hand, and private investment plus federal budget deficits must be made up by borrowing substantial amounts of capital from abroad. This borrowed capital allows us to keep our investment spending at current levels rather than reduce them to the level of domestic savings as would otherwise be necessary. We are saddling future generations of Americans with a growing domestic and foreign debt burden so that we can enjoy greater comforts today. Would that our grandchildren were to understand what we are doing to them.

One reason low net U.S. saving is not sufficient to meet domestic expenditure is that there has been substantial dissaving, in the form of large budget deficits, by the federal government. The most important action we as a nation can take to improve the trade deficit and enhance U.S. competitiveness is to boost domestic saving by cutting the federal budget deficit through reductions

in government spending. An attempt to cut the budget deficit by raising taxes would be counterproductive.

A second important factor contributing to the worsening of our trade and current account deficits has been slow economic growth in many of our industrialized trading partners. This, of course, impedes growth in our exports. Were our overseas trading partners to grow faster, the net effect on U.S. exports would be positive. In addition, those countries would become more attractive to global investors, thereby reducing the demand for dollars to invest in the United States. (The latter is a two-edged sword, of course. A slowdown in foreign investment here will drive up interest rates, unless we also take steps to boost domestic savings.)

Finally, our trade and current account deficits are related to the debt crisis in the developing countries. Secretary Baker has covered this point, so I will only say that heavy debt burdens have caused many of our Latin American trading partners to reduce their imports from us while boosting exports to the United States in order to service their debts. That may have been a prudent and necessary strategy in the short run. It is not necessarily a sound strategy, either for them or for us, in the long run.

The Positive Side

It is important to keep all this in perspective. Notwithstanding our present trade woes, the United States is still one of the world's most competitive and productive economies. We can and must do better, but our competitive posture today is far superior to what it was two or three years ago. The restoration of sustained, noninflationary growth is an accomplishment of which the Administration, the Federal Reserve, the Congress and the American people can be proud.

Beginning in 1981, President Reagan and the Congress worked together to unleash the inherent power in our economy by dramatically reducing the tax burden borne by Americans. As a consequence, our economy is far stronger and more vibrant than it was when the Administration first took office.

In 1981, America was in the grip of the highest inflation rate ever seen in this country. Inflation was silently stealing money from the pockets of all of us. Since 1980, however, inflation has been cut from over 12 percent to 1.1 percent in 1986, the lowest level in 25 years.

Accompanying this fall in the rate of inflation has been a significant drop in interest rates. The prime rate has been cut by almost two-thirds, from a crippling high of 21.5 percent in January 1981 to 7.5 percent in December 1986. Housing has once again become affordable to Americans, sparking a boom in the domestic housing market.

Our ability to create jobs for Americans is the envy of the rest of the world. Nearly 13 million new jobs have been filled since 1980, and more than 61 percent of our people over the age of 16 are employed, the highest level ever. While civilian unemployment remains too high at 6.7 percent, it is now the lowest it has been since the end of 1979.

The Administration and the Congress together have completed a major overhaul of the tax system. The new system, which starts to take effect this year, will make our federal income tax simpler and fairer for millions of Americans.

Thanks to the efforts of Treasury Secretary Baker, Chairman Volcker and their counterparts in other major industrial countries, we have seen a growing degree of macroeconomic coordination.

The totality of these and other economic policies has helped create over 49 months of sustained economic expansion, one of the longest periods of continuous growth since the second World War. This growth has boosted national wealth, given Americans higher real incomes than ever before and raised our standard of living.

Trade Policy and the Trade Deficit

Hand-in-hand with these general economic accomplishments have been numerous victories in the trade policy area. The Administration remains committed to its policy of free and fair trade. However, if trade is to be truly free for all countries, it must be conducted by essentially the same rules everywhere. We have challenged and will continue to attack foreign unfair trade practices and trade barriers whenever and wherever they exist. They undermine the basic concepts on which the postwar trading system was built - equal access to open markets. And to individual industries and firms, foreign trade barriers and unfair trade practices can and do cost large amounts in lost sales opportunities.

The Administration has made major progress in removing foreign impediments to U.S. trade. I will submit an overview of this as an appendix to my testimony today. Let me summarize some of those actions.

Through the judicious use of Section 301, we have reached agreements with many of our trading partners to eliminate or substantially reduce barriers to U.S. exports. More than 60 percent of all Section 301 trade actions have been launched under this Administration. Further, President Reagan was the first President to self-initiate Section 301 cases. We have initiated eight such cases since September 1985, and have brought seven of them to a satisfactory resolution.

In response to a Section 301 case, Japan will open its cigarette market. This could raise U.S. exports substantially. On semiconductors, we reached a broad settlement of a Section 301 case and two antidumping actions. In settlement of a Japanese leather and leather footwear case, the Japanese have agreed to reduce or eliminate tariffs on 137 non-leather items, including five important aluminum products, and they will make permanent 242 earlier tariff reductions.

In other Section 301 actions, we negotiated settlements with Korea over two separate cases involving insurance and intellectual property. And the United States and Taiwan have settled a dispute over Taiwanese restrictions on its beer, wine and cigarette markets, creating a probable \$150 million in additional U.S. exports.

With the European Community, we have just concluded a major dispute over the enlargement of the Community to include Spain and Portugal. Under the agreement, the United States will receive full and fair compensation worth \$400 million for losses we would otherwise have suffered in our corn and sorghum exports to Spain. More than three-quarters of the compensation came in assured access for corn and sorghum; the remainder in additional access on 26 other agricultural and industrial products. In other cases against the EC, we have reached settlements on citrus, pasta, almonds and canned peaches and pears, giving U.S. exporters an improved chance to compete in the EC market.

Section 301 is not the only tool the Administration has used to ensure that trade is conducted on an open and equitable basis. At the end of December, we settled a protracted subsidy/countervailing duty dispute with Canada over its lumber pricing practices. In the first use of Section 307 authority by the United States, Taiwan has agreed to eliminate its export performance requirements in the automotive sector.

We recently completed a two-year review of the Generalized System of Preferences (GSP) program, during which GSP beneficiaries were encouraged to improve intellectual property rights protection and worker rights practices as well as eliminate barriers to U.S. exports of goods, services and investment. As a result of the review, the level of duty-free GSP benefits granted to advanced developing countries will be reduced by about \$2 billion, or 23 percent. In addition, three countries were denied GSP benefits for failure to improve workers rights practices.

The United States and Japan have made important progress in the Market-Oriented Sector Selective (MOSS) talks to open markets to U.S. products. In telecommunications, pharmaceuticals, forest products and electronics, agreements were reached that should increase market access for U.S. firms. In August 1986, another MOSS negotiation was launched on transportation equipment.

In what may be our single most important international endeavor for 1987, we are in the midst of negotiations on a comprehensive trade agreement with Canada, our largest trading partner. Merchandise trade flows between our two countries totalled \$114 billion in 1986. We believe those numbers will grow dramatically if we are able to open up the border between our two nations, and we also see a vast expansion of activity in the services sector, in investment flows, and in capital movements generally. These negotiations are complex and very sensitive, but they are also clearly in the economic interest of both countries. We hope to bring them to completion later this year.

The United States and more than 50 of its major trading partners have successfully renegotiated a renewal of the Multifiber Arrangement (MFA) in textiles and apparel to 1991. The new MFA expands coverage to previously uncontrolled fibers such as ramie, linen and silk blends. It also includes a mechanism to prevent destructive import surges and provisions to prevent fraud. During the discussions, we made it clear to our trading partners that we would continue to pursue measures in our bilateral agreements negotiated under the MFA to open markets to our textile exports.

Following a determination that a substantial increase in imports of machine tools could threaten U.S. national security, President Reagan recently announced a program to revitalize the domestic machine tool industry. As part of this program, the President instructed Secretary Baldrige and me to discuss voluntary restraint agreements (VRAs) with Japan, Taiwan, Germany and Switzerland. We have now concluded agreements with Japan and Taiwan. Given recent exchange rate movements, it is unlikely that machine tool imports from Germany and Switzerland will increase. If, however, there is a surge from those countries and if it threatens to undermine our VRAs, the President has reserved the right to take unilateral action. President Reagan has also approved a domestic action plan to boost the machine tool industry.

The Administration's Program to Maintain and Enhance U.S. Competitiveness

The growth in America's trade deficit has caused some observers to question whether or not we can meet the challenge of the international marketplace. President Reagan's answer is an emphatic "yes, we can!" provided business, labor and government put their heads together and work cooperatively toward that goal.

While the world has changed considerably in the last 40 years, one constant remains. Other nations look to America for economic leadership. We can lose that leadership role only through our own inadequacies. It is we, no one else, who will determine whether we are internationally competitive a decade from now. If we are not, we will have only ourselves to blame.

In his January 27 State of the Union address, President Reagan

outlined a broad initiative to enhance U.S. competitiveness. As the President noted, all Americans must work together in a national "quest for excellence." This Administration is committed to doing its part in fostering and promoting America's ability to compete, as others must also do their part.

For its part, the federal government should create an environment in which American business and workers can achieve their full potential. As part of the Administration's initiative to enhance U.S. competitiveness, the President has proposed a wide-ranging set of initiatives designed to do just that. The multi-pronged program is aimed at:

- o increasing our investment in human and intellectual capital;
- o boosting scientific and technological development;
- o improving protection for intellectual property rights;
- o refining our legal and regulatory systems;
- o creating a favorable international economic environment; and
- o eliminating the budget deficit.

Essential to enhanced U.S. competitiveness is increased investment in our most valuable national resources - our human and intellectual capital. This investment must start at the earliest possible stage, when our children are in school. One Administration goal is to broaden and deepen our children's command of basic skills. In today's world, knowing the three "r's" is not enough. We live in a technological society in which a knowledge of computer languages is becoming as important as a mastery of English. Americans must be well-versed in every area, not only in English but in the new language of science and technology. The slide rule has been replaced by the personal computer, and our children had better know how to use it!

Preserving human capital also means helping those workers who become displaced from their jobs. The President will propose a new \$1 billion worker adjustment assistance program to help experienced industrial and service workers and farmers find new employment when they lose their jobs. It will include job counseling, and job search assistance and training for workers long before they exhaust their unemployment benefits. There will also be an \$800 million program for training needy youth in welfare families. Under the leadership of Secretary of Labor Brock, the Administration will also seek ways to improve labor mobility, so that workers can move more freely to areas where jobs are being created.

America's competitiveness increasingly depends on our ability to take quick advantage of our knowledge and technological breakthroughs. The federal government has at least two roles in this area. First, it can promote the generation of new knowledge and technology. Toward this end, the President will put forward several initiatives designed to foster U.S. research and development. Among these are science and technology centers that will focus on basic science that directly affects our competitiveness; increased incentives to research and development; the encouragement of technology sharing among the government, universities and business; and accelerated spin-offs from defense technologies.

Promoting increased knowledge and technological development is only half the battle. It will do us little good if we develop new technologies, only to have them immediately pirated by other countries as has so often occurred this past decade. The Administration is firmly committed to improving protection for U.S.

intellectual property rights at home and abroad. We will seek improvements in domestic law to give greater protection to holders of such rights, and abroad we will take into account the degree to which a country protects intellectual property rights when we negotiate treaties or provide assistance. We also plan to join the Berne Convention for the Protection of Literary and Artistic Works.

We must examine our laws and regulations for unnecessary burdens on American business. Oftentimes, the greatest hurdle for an American exporter is our own rules. Instead of promoting exports, we discourage them! Among the areas that we will have proposals on are changes in product liability laws to reduce spiraling insurance costs; reform of our antitrust laws so that they reflect the reality of global markets; improved export controls; additional reforms to eliminate unnecessary regulatory burdens; deregulated surface transportation and natural gas; and a strengthened private pension system.

Trade Legislation and the Uruguay Round of Multilateral Trade Negotiations

The United States is the world's most important trading nation. Through trade, we have stimulated economic growth, taken advantage of economies of scale, encouraged innovation, and ensured a higher U.S. standard of living. Some 5 million American jobs depend on exports - more than in any other nation. The days when we could wall ourselves off from the rest of the world are gone, never to return.

That is why the Administration, as part of its program to enhance U.S. competitiveness, will be submitting a substantial package of trade legislation to the Congress. It is our hope that we can work together to give this legislation the serious and thorough consideration it deserves.

One of our legislative goals is to improve the scope and functioning of U.S. trade law. In so doing, we will submit amendments to Section 201 of the Trade Act of 1974 to expand the range of relief remedies available to the President, and to help ensure that industries receiving Section 201 relief will be truly competitive following the period of relief. We will propose including reciprocity as a factor to be considered under Section 301 - our most powerful trade weapon - in deciding whether a government's practices are "unreasonable". We will also propose a firm time limit for settling all Section 301 disputes and regular reports on the commercial effects of Section 301 actions. Our antidumping and countervailing duty laws should be tightened to prevent circumvention. In addition, the antidumping law should be amended to improve its application to nonmarket economies. Our legislative proposal will also contain a request for authority to implement the Harmonized System of Tariffs.

The other goal of our proposed legislation will be to give us the tools to improve the international trade environment.

The tool we need most is fast-track negotiating authority for the Uruguay Round, and our legislative proposal will request this authority. Past experience has shown that we must offer reasonable assurance to our negotiating partners that the results of a multilateral round will be considered (and implemented) by the Congress on an expedited basis.

Experience has also shown that it is critical for us to consult frequently and work closely with the Congress and the American public throughout such a negotiating exercise. The procedures used in the Tokyo Round were highly successful. They involved consultation with the Congress and the public through each step of the negotiation. As part of our request for trade negotiating authority, we will include provisions for even more extensive

consultation during the Uruguay Round.

We want a successful conclusion to the Uruguay Round for several reasons. As they try to do business overseas, Americans face numerous trade barriers and other trade distortions. Frequently, these barriers are legal under international trade rules, such as tariffs, or, like services, are not covered at all by the rules. Just as frequently, they do not lend themselves to remedy through unfair trade actions. The authority to retaliate under Section 301, for example, can be effective in specific, well chosen cases, but is impractical where problems are widespread or there is no international consensus over the fairness of a practice.

Therefore, the most effective way to attack many of these barriers and practices is through international negotiations. That is why the United States pressed so vigorously for the start of a new round of multilateral trade negotiations. Thanks to our efforts, and those of many like-minded nations, the latest round of multilateral trade talks was launched on September 20, 1986 by the 92 nations of the General Agreement on Tariffs and Trade (GATT).

If successfully concluded, the Uruguay Round will assist America's trade performance by strengthening and improving existing trade rules and expanding the coverage of the rules to new areas. Where the GATT rules are weak, such as in agriculture and dispute settlement, we will work to strengthen and improve them. Where the rules are nonexistent, as in intellectual property, services and trade-related investment, we seek new regimes for ensuring that trade in these areas is conducted on a free and fair basis. Our goal for the negotiations is to substantially increase the share of total world trade under some form of international discipline, and to make certain the discipline is effective.

The participating nations have now agreed on a negotiating program and organization for the Uruguay Round. The first phase of negotiations begins this week in Geneva. During 1987, the participants are committed to putting forth detailed negotiating plans and proposals in different areas of trade activity. It will be the most comprehensive trade negotiation ever undertaken. Intense bargaining should begin next year, and our goal is to complete all negotiations by 1990. Hopefully, some facets of the negotiation can be completed and brought back for Congressional approval at an earlier date.

Conclusion

Numerous alternative policy solutions for the U.S. trade deficit have been discussed in the Congress, the public and the press--an import surcharge, oil import fees, export promotion and subsidy programs, forced reductions of bilateral trade surpluses by major U.S. trading partners, and the tightening up of U.S. trade laws and programs.

Many of these proposals are of dubious merit; some would be very harmful to U.S. interests. In general, they blatantly ignore our international commitments and responsibilities. This would invite retaliation, shrink trade, slow everyone's economic growth, and boost our inflation rate. Aside from their specific shortcomings, these proposals all share one basic flaw - they fail to address the fundamental causes of the trade deficit.

They fail because they attempt to force "traditional" trade policy instruments, such as our trade laws, to solve problems they were never designed to solve. The proposals focus mainly on mechanisms which directly affect trade in goods - tariffs, quotas, retaliatory authority, export promotion activities, etc. Even where such proposals move outside of the traded-goods sector and into the areas of services, intellectual property rights and investment, they assume that the only tools we need to use to bring down our

trade deficit are trade policy and trade laws.

Such matters are a legitimate subject for public debate. Traditional trade policy is still important, and we are working very hard at it. But let us recognize that it is not responsible for much of the recent expansion in our trade deficit. At most, foreign trade barriers and unfair trade practices account for a very small portion of our trade deficit. Indeed, given the Administration's record in attacking unfair foreign practices, if trade policy were a major factor in the trade deficit we would already have eliminated a large chunk out of it.

Actions in the trade area should be taken because they are needed to maintain and restore a sense of equity and openness in the international trading system. But they cannot be viewed as the fundamental solution to our trade problems.

In looking for such solutions we must expand our horizons beyond those of traditional trade policy. The Administration's competitiveness and trade initiatives are positive, forward-looking and aggressive. They reflect President Reagan's confidence in America and its people. We want to work with the Congress in a determined effort to enhance our competitiveness and expand our international trading opportunities so that we can guarantee a better future not only for all Americans, but for all nations.

Table 1

Trade and Current Account Balances
(\$ billions)

a. Merchandise Trade (Census basis, imports valued c.i.f.)

	U.S. Exports	U.S. Imports	Balance
1980	220.6	257.0	- 36.4
1981	233.6	273.4	- 39.8
1982	212.2	254.9	- 42.7
1983	200.5	269.9	- 69.4
1984	217.9	341.2	-123.3
1985	213.1	361.6	-148.5
1986	217.3	387.1	-169.8

b. Current Account Balances

	Merchan- dise**	Business Services	Direct Invest. Earnings	Other Invest. Earnings	Other***	CURRENT ACCOUNT
'80	- 25.4	7.6	28.5	1.9	-10.7	1.9
'81	- 28.0	9.6	25.7	8.4	- 9.9	6.3
'82	- 36.4	9.1	18.2	10.4	-10.4	- 9.1
'83	- 67.1	6.4	14.9	9.9	-10.7	- 46.6
'84	-112.5	2.3	12.3	6.5	-15.1	-106.5
'85	-124.4	0.4	26.3	- 1.1	-18.9	-117.7
'86*	-146.4	4.6	31.2	- 8.4	-20.6	-139.6

* Annualized from the first three quarters of 1986

** The merchandise trade deficit as reported in the current account is smaller than on the more widely reported Census basis. The exclusion of insurance and freight charges from merchandise import valuations in the balance of payments together with other technical adjustments cause this difference in the valuation of the trade balance.

*** Includes military transactions, government services and unilateral transfers

Sources: Survey of Current Business
U.S. Department of Commerce
U.N. Trade Statistics

Table 2: SELECTED BILATERAL U.S. MERCHANDISE TRADE BALANCES 1980 TO 1986

	1980	1981	1982	1983	1984	1985	1986
Japan	-12.0	-18.0	-19.0	-21.7	-36.8	-49.7	-58.6
Canada	-6.6	-7.3	-13.1	-14.3	-20.4	-22.2	-23.3
EC	16.3	8.7	3.5	-1.6	-13.3	-22.5	-26.4
Germany	-1.9	-2.1	-3.8	-5.0	-9.4	-12.2	-15.6
Mexico	2.4	3.8	-4.0	-7.9	-6.3	-5.8	-5.2
Korea	0.0	-0.5	-0.7	-2.0	-4.2	-4.8	-7.1
Taiwan			-5.4	-7.7	-11.3	-13.1	-15.7
Brazil	0.3	-1.0	-1.2	-2.9	-5.6	-5.0	-3.5

SOURCE: U.S. Department of Commerce and the Office of the U.S. Trade Representative

Table 3: Selected Data on U.S. Capital Flows, 1981 to 1986
(Billions of U.S. Dollars)

Item	1981	1982	1983	1984	1985	1986*
Capital Outflows (-)	-111.0	-121.3	-50.0	-23.6	-32.4	-90.0
of which						
Debt	-96.2	-117.2	-44.6	-15.9	-5.9	na
Equity	-9.6	0.9	-4.3	-5.0	-22.7	na
Capital Inflows (+)	83.3	94.1	85.5	102.8	127.1	204.4
of which						
Debt	53.1	76.7	67.2	78.3	104.4	na
Equity	30.2	17.4	18.3	24.5	22.7	na
Net Capital Flows	-27.7	-27.2	35.5	79.2	94.7	114.4
of which						
Debt	-43.1	-40.5	22.6	62.4	98.5	na
Equity	20.6	16.5	14.0	19.5	0.0	na
Current Account Deficit	6.3	-9.1	-46.6	-106.5	-117.7	-139.6
Errors and Omissions	21.4**	36.3	11.1	27.3	23.0	25.2

* Annualized on the basis of 9 month's data.

** Includes allocation of SDR drawing rights.

Note: In the categories "Capital Outflows" and "Net Capital Flows", debt plus equity do not equal the total capital flow because of changes in U.S. official reserve assets.

Source: U.S. Department of Commerce, Survey of Current Business.

APPENDIX

THE PRESIDENT'S TRADE POLICY: AN UPDATE

On September 23, 1985 President Reagan outlined a trade policy consisting of three parts: tough action against other nations' unfair trade practices, negotiations to liberalize world trade, and international economic policy reforms that would help both U.S. exporters and import-sensitive industries.

The President's policy has achieved major progress on all fronts. Here is a summary of its achievements.

I. FIGHTING UNFAIR TRADE

Since September 7, 1985, President Reagan has instructed U.S. Trade Representative Clayton Yeutter to initiate or take action on eleven unfair trade practice cases under section 301 of the Trade Act of 1974. Ten of these cases have been resolved and President Reagan has issued an unfairness finding in the other.

The aggressive use of section 301 and other statutes is achieving results:

EC Enlargement

The European Community (EC) agreed on January 30, 1987 to provide full compensation to the U.S. for higher corn and sorghum tariffs imposed in Spain following that country's accession to the EC. The \$400 million compensation package includes guaranteed imports of 2 million metric tons of corn and 300,000 metric tons of sorghum by Spain. Another 400,000 metric tons of grain may be sold in Portugal as a result of elimination of a requirement reserving 15 percent of the Portuguese grain market for sales from other EC member countries. The EC will also lower tariffs on 26 other products to provide additional market access and extend all current EC tariff bindings to Spain and Portugal. These actions were taken after President Reagan had announced retaliatory measures under section 301.

Japan Tobacco

Japan agreed on October 6, 1986 to open its cigarette market to U.S. cigarette exporters by suspending its 28 percent tariff on cigarette imports, by ending the discriminatory practice of allowing deferred payment of excise taxes by Japanese manufacturers and by eliminating distribution and price approval problems. U.S. cigarette exporters believe their exports to Japan could quintuple, reaching \$1 billion annually. This settled a self-initiated section 301 case.

Taiwan Beer, Wine and Tobacco

Taiwan agreed to open its beer, wine and cigarette markets to American exports, creating the possibility of an additional \$150 million in sales in these commodities. This action was taken on December 8, 1986 after President Reagan instructed Ambassador Yeutter to propose retaliatory action under section 301.

Japan Semiconductors

Japan agreed on July 31, 1986 to open its market to sales of U.S. semiconductors, which should increase semiconductor exports by \$2 billion in five years. Japan also agreed to help ensure that Japanese companies will quit dumping computer chips below cost in the U.S. and third country markets. This settled an industry-initiated section 301 case and two antidumping cases.

- The Administration is monitoring this agreement carefully in light of apparent noncompliance by Japan. In emergency consultations in Tokyo the week of January 26, U.S. negotiators set deadlines for Japanese actions to bring them into full compliance with the provisions of the agreement.

Brazil Informatics

In another self-initiated section 301 case, President Reagan determined on October 6, 1986 that Brazil unreasonably restricts imports of computer technology, provides inadequate protection of intellectual property rights for computer software and restricts investment in the computer sector. Based upon progress made to date and upon expectations of future progress, President Reagan decided on December 30, 1986 to provide an additional period until July 1, 1987 for Brazil to make improvements in its informatics regime.

EC Citrus, Pasta, Almonds

The EC agreed on August 10, 1986 to give U.S. citrus producers additional access to the European market, ending a 16-year dispute on the EC's special treatment for Mediterranean citrus imports. The EC also agreed promptly to solve the long-standing problem of subsidies for EC pasta exports. And the U.S. and EC agreed to tariff reductions on other products that will give U.S. almond producers additional access to the European market. These agreements were reached after President Reagan retaliated against the EC's citrus preferences under section 301, raising pasta duties on November 1, 1985. (As part of the settlement, both sides rescinded their retaliatory measures).

Japan Leather

Japan agreed on December 21, 1985 to compensate the U.S. for GATT-illegal leather and leather footwear quotas by eliminating tariffs on 137 items, including five important aluminum products, and making permanent 242 earlier tariff reductions. In addition, the U.S. imposed higher duties on Japanese leather imports to the U.S. This settled a long-standing section 301 case on which the President set a deadline for retaliation.

Japan Aluminum

Following consultations required as part of the leather agreement, Japan agreed on October 31, 1986 to accelerate tariff reductions on aluminum imports.

Korea Insurance

Korea agreed on July 21, 1986 to eliminate prohibitions against underwriting by foreign firms of life and non-life insurance, ensuring fair access for U.S. firms to Korea's \$5 billion insurance market.

Korea Intellectual Property

Korea agreed on July 21, 1986 to offer significantly greater protection to U.S. intellectual property rights, including patents, copyrights and trademarks, settling a self-initiated section 301 case.

Korea Motion Pictures

A potential section 301 case was avoided when Korea agreed on December 23, 1985 to reduce its barriers on importing and distributing of U.S. motion pictures, television programs, and video materials.

Taiwan Customs Valuation

Taiwan agreed on August 11, 1986 to fulfill its commitment to use the transaction value, instead of an artificial duty paying schedule, to calculate customs duties. This action came after the President directed Ambassador Yeutter to propose retaliation under section 301.

EC Canned Fruit

The EC agreed in December 1, 1985 to phase out the processing element of subsidies for canned peaches and pears, giving U.S. canned fruit exporters a chance to compete in the EC market. This settled a long-standing section 301 case on which the President set a deadline for retaliation.

In addition to section 301, President Reagan has used other statutes to fight unfair trade:

Canada Lumber

On December 30, 1986 the United States and Canada settled a long-standing dispute over Canada's lumber pricing practices. Canada agreed to implement a 15 percent export tax on lumber, thereby neutralizing the effect of its lumber subsidies.

Generalized System of Preferences (GSP)

On January 2, 1987 Ambassador Yeutter announced that President Reagan will reduce the level of duty-free GSP benefits available to advanced developing countries by an estimated \$2 billion, or 23 percent. This decision concluded a two-year general review of the GSP program which encouraged improved protection of intellectual property rights and the elimination of foreign trade barriers to U.S. goods, services, and investment. The President also decided to terminate or suspend from the program three countries for their failure to improve their worker rights practices.

Taiwan Investment Restrictions

Taiwan agreed on September 12, 1986 to eliminate export performance requirements in the automotive sector. This occurred after the President instructed Ambassador Yeutter to initiate a case under Section 307 against trade related investment restrictions by Taiwan, which had imposed export requirements on a Japanese auto plant investment there.

Brazil General Aviation Aircraft

Following several years of consultations, Brazil agreed in late 1985 to reduce import restrictions on general aviation aircraft by lowering tariffs from 50 to 20 percent, by granting import licenses for aircraft under 7,000 kilograms within 30 days and by making licensing procedures more transparent.

Japan Supercomputers

The United States initiated a Section 305 investigation of Japan's supercomputer trade practices on December 10, 1986, thereby launching an interagency fact-finding review of trade in one of America's most advanced industries. The United States and Japan will also discuss the issue of Japanese procurement of supercomputers under the auspices of the Market-Oriented Sector Selective (MOSS) electronic talks.

Japan Rice

Ambassador Yeutter announced a strategy for dealing with Japanese restrictions on rice imports on October 23, 1986. Under this strategy, the U.S. will ask Japan to honor commitments made in Punta del Este, Uruguay to roll back GATT-illegal trade measures and to negotiate on all agricultural issues during the Uruguay Round negotiations.

Japan Airport Construction

Japan has assured the U.S. that foreign companies will be able to compete on a fair and equal basis in the second and third construction stages at the \$8.5 billion Kansai airport in Osaka Bay. Consultations continue on American participation in the airport construction.

War Chest

On September 23, 1985, the President proposed a \$300 million three-year fund to counter predatory export credit financing by U.S. competitors for projects in developing countries. Congress appropriated \$100 million last year for this purpose. The Administration is seeking the additional \$200 million for the next two years.

Sweaters from China and Macau

The U.S. used new authority under the Multifiber Arrangement (MFA) to establish quotas on such products as ramie, linen and silk-blends for the first time on September 3, 1986 when, following import surges in these products, it notified China and Macau that it intended to limit "new MFA fiber" sweaters from those countries.

Japan Fish Quotas

GATT consultations requested by the United States regarding Japan's quotas on fish -- particularly herring and pollock -- began on October 22, 1986.

Japan Agricultural Quotas

On July 15, 1986, the U.S. asked for a GATT investigation of illegal Japanese import quotas in 12 agricultural categories, including fruit juices and processed beef. A GATT panel has been established to investigate the U.S. claim.

EC Airbus

On December 19, 1986, Ambassador Yeutter requested political-level round of consultations with three European governments on the Administration's complaint that they improperly subsidize Airbus Industrie. Those talks were held during the week of February 2, 1987.

EC Meat Inspection

On March 31, 1986, President Reagan instructed Ambassador Yeutter to initiate an inquiry under Section 305 into unnecessary inspection standards the EC intends to enforce against meat imports.

Preshipment Inspection

Ambassador Yeutter announced actions on October 20, 1986 that will address impediments to American exports caused by requirements by some countries that shipments be inspected by private companies in the U.S. before export.

GSP Ethanol

On April 1, 1986, the President determined that certain ethanol mixtures were being imported in circumvention of U.S. law and would no longer be eligible for duty-free treatment under the Generalized System of Preferences (GSP).

Shakes and Shingles

On May 22, 1986, the President granted import relief to the red cedar shakes and shingles industry under section 201 in the form of a declining tariff program.

II. NEGOTIATING TRADE AGREEMENTS

President Reagan is seeking a worldwide negotiation to improve international trading rules as well as a wide array of bilateral agreements to open overseas markets for U.S. exporters and to shield import-sensitive industries from unfair imports.

Uruguay Round

On September 20, 1986, in Punta del Este, Uruguay, trade ministers from the 92 nations in the General Agreement on Tariffs and Trade (GATT) launched comprehensive multilateral trade negotiations under the GATT. The talks will strengthen the international trading system so that U.S. manufacturing, services and agricultural industries can better compete in international markets. The U.S. will seek new rules covering trade in services and agriculture, trade-related investment, intellectual property protection and dispute settlement.

Canada FTA

An historic negotiation with Canada designed to liberalize trade between the two nations began on June 17, 1986. If successful, the talks could lead to the virtual elimination of the border for commercial purposes, strengthening both countries' ability to compete in international trade.

MFA

Textile exporting and importing nations agreed to a stronger and more comprehensive extension of the Multifiber Arrangement (MFA) on August 1, 1986. The new MFA extends product coverage to essentially all fibers and makes it easier to prevent import surges.

Machine Tools

On December 16, 1986 President Reagan announced that Japan and Taiwan had voluntarily agreed to restrain machine tool exports to the United States for five years. He also approved a domestic action plan that will facilitate the industry's revitalization. This program, which will last five years, was undertaken for national security purposes.

Japan MOSS

Important progress was achieved in 1985 in the Market-Oriented Sector-Selective (MOSS) talks with Japan to open markets for U.S. products. A number of market-opening measures are to be implemented while talks will continue to open markets even further.

- In the telecommunications area, the Japanese market was opened substantially to American radio equipment and services, terminal equipment and network services.
- Barriers to imports of American medical equipment and pharmaceuticals were reduced by simplifying regulatory procedures, eliminating administrative delays, and making the rules and regulations more understandable.
- In electronics, several important measures were approved that should improve access by U.S. companies to the Japanese market, including tariff reductions, improvements in the patent process, participation by U.S. companies in Japanese R&D projects, and legal protection for semiconductor chips and computer software.
- In forest products, the Japanese government has committed to tariff reductions on wood and paper products. The talks will now focus on non-tariff barriers.
- On August 20, 1986, the U.S. and Japan began negotiations on the next MOSS negotiation area -- auto parts.

Japan NTT Agreement

On December 23, 1986 Japan agreed to a three-year renewal of the bilateral agreement on procurement of telecommunications equipment by the Nippon Telegraph and Telephone Company. Under this agreement, the government of Japan must provide nondiscriminatory treatment for U.S. products in procurement, ensuring the ability of U.S. suppliers to compete in a market that formerly was closed to foreign suppliers.

EC Steel

On November 1, 1985, the EC agreed to hold steel exports to 5.5 percent of the U.S. market through September 30, 1989. The U.S. has now negotiated 18 such agreements with steel-producing countries. These agreements are designed to correct market distortion caused by foreign practices such as subsidies, dumping, and quotas.

- On August 10, 1986, the EC agreed to limit semifinished steel exports to the U.S. to approximately 600,000 tons annually. This agreement brings semi-finished steel under the discipline of the U.S.-EC Steel Arrangement for the first time.

Steel Surges

On September 4, 1986, Ambassador Yeutter requested immediate consultations with Canada, Sweden, and Taiwan to remedy the problem of steel import surges from those nations. This followed large monthly increases from these nations (which are not covered by the President's steel program) during July. Steel imports from Sweden and Taiwan have subsequently declined.

Mexico GATT

On August 24, 1986, Mexico acceded to the GATT following the negotiation with the U.S. of terms of accession that will guarantee greater access to the Mexican market for U.S. exporters.

Hong Kong Textiles

The U.S. and Hong Kong reached a comprehensive agreement on textile and apparel imports on June 30, 1986, limiting growth of Hong Kong textile and apparel imports to an average of one percent per year through 1991. This agreement also extended coverage to virtually all fibers, including ramie, silk blends and linen.

Taiwan Textiles

On July 14, 1986 the U.S. and Taiwan reached a comprehensive agreement on textiles and apparel similar to the agreement reached with Hong Kong. Under this agreement, Taiwan's exports will grow by about one-half of one percent from 1985 through 1988. In addition, Taiwan agreed to reduce tariffs on more than 300 textile and apparel items by as much as 50 percent, providing additional market access for U.S. manufacturers.

Korea Textiles

On August 4, 1986 the U.S. and Korea reached a comprehensive agreement on textiles and apparel that will limit import growth to 0.8 percent annually through 1989. In addition, Korea has agreed to phase out its import licensing system over three years, providing additional market access for U.S. manufacturers.

Japan Textiles

Japan agreed to a comprehensive agreement on textiles and apparel on November 13, 1986 that will limit import growth to 0.8 percent annually through 1989. In addition, Japan agreed to establish a mechanism to prevent transshipments of textiles from third countries through Japan.

Japan Computer Parts

The U.S. and Japan agreed on November 22, 1985 to eliminate all tariffs on trade in computer parts and Japan agreed to eliminate tariffs on computer peripherals and central processing units.

Japan Lawyers

On April 11, 1986, the U.S. and Japan announced an agreement permitting American lawyers to enter the legal services market in Japan for the first time. Consultations continue on implementation of the agreement.

Taiwan Pears

Taiwan agreed to liberalize restrictions on imports of pears as of September 15, 1986.

Colombia Wine

Following representations by Ambassador Yeutter to the President of Colombia, that nation removed U.S. wines from its list of prohibited imports.

BITs

Since March 25, 1986, President Reagan has sent to the Senate for ratification 10 bilateral investment treaties (BITs) liberalizing investment policies between the U.S. and developing nations.

Harmonized System

On July 25, 1986, the U.S. presented the GATT with a new U.S. tariff schedule bearing common nomenclature negotiated in the GATT over a 12-year period. U.S. exporters will benefit from the efficiency that results when the new system is phased in by all countries.

Government Procurement Code

GATT's Committee on Government Procurement completed the first phase of renegotiating the Government Procurement Code on November 21, 1986, strengthening the Code to bring the procurement practices of other signatories more into line with U.S. practices.

III. IMPROVING THE INTERNATIONAL ECONOMY

President Reagan has sought an unprecedented level of coordination of international economic policies among the leading developed countries to provide a more reasonable relationship between the dollar and other currencies to assist U.S. exporters and import-sensitive industries.

Plaza Agreement

Secretary Baker and representatives of four other industrialized nations agreed on September 22, 1985 to embark on a major effort to coordinate economic policies. The result has been a major realignment of currency exchange rates, which will begin to alter our trade imbalance soon and which has already made U.S. products and services far more competitive.

Tokyo Summit

The President achieved agreement at the Tokyo Economic Summit on May 6, 1986 on a package of reforms that will improve the international monetary system and provide a more stable international economic environment.

February 9, 1987

Chairman ROSTENKOWSKI. Thank you, Ambassador. Thank you again for joining us. You know, I am just going to make a brief comment. I am one legislator who feels that a lot of our problem is the fact that our relationships with our trading partners are split all over the executive branch. You have the Trade Representative, you have Malcolm Baldrige in Commerce. You know how I feel because we have discussed this on several occasions. I would like to see all these elements consolidated into one voice and raise it to a loud voice at the White House so that the President can hear. I think basically that is where our problems are domestically with respect to how we are treated internationally. But that is something that we have talked about on many occasions.

I would like to get an indication from the members by a show of hands as to who has questions of Ambassador Yeutter.

[Show of nine hands.]

Chairman ROSTENKOWSKI. Mr. Duncan will inquire.

Mr. DUNCAN. Thank you, Mr. Chairman. Thank you, Mr. Ambassador.

Mr. Ambassador, a great number of people have high hopes for GATT's success, while others think that GATT is antiquated and almost ineffective. I must say that when I was there with the chairman a couple of years ago, it did seem like it was as antiquated as a cottage industry, almost like the House of Representatives.

But do you have great hopes for success this time on the eve of the Uruguay round? What are your hopes now, and do you think it will help the economy, and to what extent?

Ambassador YEUTTER. I do have great hopes, Mr. Duncan, but only if we handle the Uruguay round skillfully and if we get a comparable commitment on the part of the major trading nations of the world to the GATT, that is a commitment comparable to ours, and comparable dedication in trying to improve the GATT system.

There is no question that it has many weaknesses and shortcomings at the moment. It has deteriorated in a relative sense, Mr. Duncan. It may be better than it was 10 or 20 years ago in an absolute sense. But relative to the needs of the world, and by that I mean the world of international commerce, it is not performing as well as it should.

But I really do believe we have a chance to correct that in the Uruguay round, Mr. Duncan, and we ought to take advantage of that opportunity.

We were successful in Punta del Este, as you know, in getting every item on that agenda that we wished. We have just wrapped up the procedural discussions in Geneva to get the process underway. I just got a report a couple of hours ago of the selections of the chairmen for all of the different negotiating groups, and the negotiations are now about to begin. In fact, the first week of the negotiations in Geneva is this week. And we will continue on.

So I really believe we have got a chance of fixing the system. We have either got to fix it or abandon it, Mr. Duncan, and there are some who would suggest we abandon it. But if we abandon it, we have got to create another institution to replace it. And it just seems to me it is much more practical to fix it.

Mr. DUNCAN. Are you aware of any agreements reached in the last few years that have benefited the American economy?

Ambassador YEUTTER. Oh, I think we have reached a lot of them, Mr. Duncan. Under the aegis of the GATT, not necessarily in the GATT itself. But I really believe that under the aegis of the GATT, we are doing a lot of things that tremendously benefit U.S. commerce, and it will have a chance if we improve the GATT of doing a lot more.

We cannot have an unrestrained process of international commerce because there are too many temptations on the part of people to cheat and to defraud others, and to engage in practices that are extremely onerous to us and in a lot of other nations. So there has to be a sound set of international rules if we are going to have an expansion of international commerce.

Mr. DUNCAN. Thank you, Mr. Ambassador. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Dorgan.

Mr. DORGAN. Thank you, Mr. Ambassador.

Are you satisfied with the progress we are making with the Japanese and the import of American beef into Japan, and are you satisfied on another level with the progress with the EC in dealing with their restitution payments which, it seems to me, quite clearly violate GATT?

Ambassador YEUTTER. Well, taking the first one. Beef for Japan, as you know, Mr. Dorgan, the present arrangement with the Japanese expires in April of 1988. And the general agreement between the United States and Japan was that 1 year prior to expiration, we would begin discussions, with respect to what happens next. And that means April 1, 1987, we are pretty close to that point, our position, Mr. Dorgan, is that they should now lift the remaining quotas on beef entering Japan. We see no justification for a continuation of those quotas which we believe to be GATT illegal in the first place. And aside from whether they are GATT legal or illegal, when Japan has a \$50 billion or more bilateral surplus with us, it is difficult to justify continuation of the quotas, particularly when there is no doubt in my mind and in the minds of your cattle producers in North Dakota that there are a lot of Japanese who would like to eat that American beef.

So we will take a very hard negotiating stance on that issue.

With respect to restitutions of—

Mr. PICKLE. Mr. Ambassador, may I ask will you yield, Mr. Dorgan?

Mr. DORGAN. I yield.

Mr. PICKLE. Are you prepared to say, Mr. Ambassador, what the administration will do on April 1 if Japan has not met their agreement on semiconductors?

Ambassador YEUTTER. Well, it is April 1, 1988, and that is a long way off.

Mr. PICKLE. Oh, no. It comes in effect a year ahead of time.

Ambassador YEUTTER. Well, we would certainly have to sit down and have discussions with the Japanese, Mr. Pickle. And I am not prepared to say what we would do or don't do or not do without having set down and had discussions with them. We owe them the

courtesy of talking to them about the issue. But I want you to know I am committed to opening up that market without a doubt.

With respect to restitutions in the Community, that obviously will have to be dealt with in the agricultural negotiations of the Uruguay round. One can certainly build the argument that those restitutions are of dubious GATT justification. But that is not a clear case. And with the ambiguities that reside in almost all agricultural rules under the GATT, it is simply imperative that we get to the negotiating table and really have a comprehensive agricultural negotiation for the first time.

Mr. DORGAN. Mr. Ambassador, just one more brief question.

The major grain exporting countries are stumbling over each other these days to try and see who can sell more grain at a loss, that is below the cost of production.

Looking ahead 5 to 10 years, do you see any prospect of major grain exporting countries reaching some basic agreement on production?

Ambassador YEUTTER. I see it happening in the context of the Uruguay round, not in terms of a market sharing agreement because we are not interested in a market sharing agreement. Some of our trading partners are, but I am not. And certainly this administration is not. And I do not believe that would be in the interest of efficient wheat producers or grain producers in the United States. But I do believe that we can have a much healthier environment for grain exporters if we do the job right, the negotiating job right in the Uruguay round.

It seems to me that the only long-term solution, Mr. Dorgan, to this problem is to get governments, our Government and a lot of other governments, to pull back on the amount of financial resources that are presently being plowed into agricultural production.

One of the reasons we have such a gigantic overhanging of surpluses is because governments keep stimulating additional production. If we can just together pull back on the amount of revenue falling into agricultural production, redeploy those financial resources into other areas of our respective economies where they would be more productive, we would all be a lot better off. Our taxpayers would be better off; our economies would be more productive generally. And I have to think we would see a significant improvement in price levels worldwide for grains because we would see a drop off for the marginal producers that are being sustained by government revenues. But that has to be done as a negotiating exercise, and it has to be done over a period of time.

Mr. DORGAN. But this administration is not interested in any general strategy that would help wheat producing countries get together to see if all of them who are now selling at a loss cannot reach some agreement on production levels generally.

Ambassador YEUTTER. We would not be interested in an international commodity agreement or market sharing kind of arrangement. This is not to suggest that there are no other ways to help those producers in the short run. I am giving you a long-run solution. I have not commented on the short run. And I am wandering into Secretary Lyng's area, so I really don't want to bring up anything he might say about that.

But I really believe that short-run relief is a legitimate question, Mr. Dorgan.

Mr. DORGAN. I might say Secretary Lyng has not been saying very much about that. So you would not wander into much trouble.

Ambassador YEUTTER. Well, I prefer to have some additional discussion with you on that subject outside of the context of this hearing, if you would like.

Chairman ROSTENKOWSKI. Mr. Pease.

Mr. PEASE. Thank you very much, Mr. Chairman. And welcome, Mr. Ambassador.

Let me say at the outset that I think you have been doing an absolutely splendid job as our U.S. Trade Representative. I am proud to have you in that position, and I cannot think of how you could have done a better job.

Ambassador YEUTTER. Thank you.

Mr. PEASE. I particularly refer to the recent negotiations with the European Community. No matter how much our EC trading partners might whine, I was glad to see you scotch any rumors that you might be soft on brie. [Laughter.]

Now, let me move on to a question. You said, I think, in your testimony that there are a lot of provisions of H.R. 4800 which are GATT illegal.

I would like to have your interpretation of what is GATT illegal. In other words, do you interpret that something is illegal if it is specifically forbidden by the GATT, or if there is no mention in the GATT, that is to say, if it is not specifically allowed, then it is not allowed? What is your interpretation of what is legal or not legal under the GATT?

Ambassador YEUTTER. Well, for the purposes of the legislative context that we have here, and I am not trying to give you a legalistic answer, our lawyers can do that, but I would like to give you a layman's kind of response to the question which would simply be that if I felt that a legislative provision enacted here would result in a GATT case being filed against us, that is, a GATT complaint being filed against the United States by another country, and if I felt that the probabilities were high that we would lose that case, that is when I would construe it to be a GATT illegal provision.

Mr. PEASE. Are you familiar then with the legal precedents in the GATT of cases been brought on the basis that the GATT does not allow a certain action; therefore, it must be not allowed, or are successful cases based on specific prohibition within the GATT of certain actions?

Ambassador YEUTTER. Well, there may be some or all of that. But we are holding a discussion in the abstract. If you will be more specific, I will try to respond to a specific example, Mr. Pease.

Mr. PEASE. Well, I would like you in turn to be specific when you get a chance, perhaps in writing, which provisions you consider to be GATT illegal and why.

Ambassador YEUTTER. I will be pleased to do that.

Mr. PEASE. OK. Fine.

I was interested to note that Secretary Baker did not list my worker rights provision among the most objectionable congressional trade proposals. I remind you that the language in this proposal

provides the President with complete discretion in response to a petition based on worker rights.

Is this an area that the administration is willing to work with me on in the new trade bill?

Ambassador YEUTTER. Before I respond to that, if I may, I will try to be more specific on your prior question because I jotted down this morning a few sections of H.R. 3 that would probably meet my definition of GATT illegality although I would like to have the privilege of changing my mind and giving you a specific written response.

But one would be the import surcharge provisions that would relate to "excess bilateral trade imbalances," the so-called Gephardt provision. Some of the sectoral reciprocity provisions, the section 201 provisions relating to provisional import relief, some of the natural resource provisions, private liability in the antidumping cases and diversionary dumping. Those are examples, a number of them that I believe would clearly fall within the GATT illegal category.

Now, to your other question on worker rights. As you know, Mr. Pease, we have talked about this issue over a long period of time. And I would be pleased to work with you on it because I consider it a legitimate public policy question, a legitimate international trade policy question, and I am committed to achieving improvements in that area internationally on my watch if I can possibly do so.

As you know, we had some discussion of that issue in Punta del Este, not much, because most other countries don't really want to discuss that topic with us. But I am convinced that there will be opportunities to raise that issue in an effective way internationally in the Uruguay round and in other forums, and we ought to do it.

As to what might be done legislatively that would be helpful, that is perhaps a more difficult question, but we are certainly prepared to sit down and discuss it with you thoroughly and try to work with you on it.

Mr. PEASE. Thank you very much. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Gregg.

Mr. GREGG. I have no questions, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman. Thank you, Mr. Yeutter for your valuable testimony.

One of our problem areas with Japan, resulting in a 305 investigation by your Department, is that of super computers. Apparently we have been denied access and Japanese firms and institutions have been instructed by their government to either take a smaller one or to wait for the development of a larger home-grown product.

Can you give us an idea of where you are going on that? Is that likely to result in a 301 initiation if these allegations are proved to your satisfaction?

Ambassador YEUTTER. It is probably premature to draw any conclusions as to whether section 301 case will be necessary. However, that issue, that is the issue of the onerous nature of the Japanese prohibitions in this area is under discussion within the administration this week. Perhaps I should say allegedly onerous because we have got to make sure that we have our facts straight before we deal with this case.

But, as you know, Ambassador Smith was in Japan 2 weeks ago and discussed at some length with representatives of the Japanese Government. Ambassador Smith and Under Secretary Smart of Commerce, who accompanied him on that trip, both came back quite distressed with the Japanese response, which seemingly is that Japan is not interested in procuring American supercomputers through purchase practices of any of its public agencies or government agencies. That is, we seemingly are to be excluded from that segment of the Japanese market.

If that be so, and if that attitude is confirmed at the highest levels of the Japanese Government, we obviously have a serious trade dispute on our hands, and we will have to deal with it in a vigorous way.

Mr. FRENZEL. Thank you very much, Mr. Ambassador.

Your predecessor on that stand, Secretary Baker, indicated that the administration had a different strategy this year with respect to trade; that it was very much interested in working with Congress, and we are all delighted to see that.

On the other hand, on the congressional side, we see the introduction of a bill that six Cabinet members said was anathema to the administration. We see a time schedule delineated which makes it very difficult to consider the administration's proposal with any real care.

I assume that you are not discouraged and that you are going to try to work the problem. But I wonder if you would comment on my statement that the lack of cooperation seems to be on the other side this year?

Ambassador YEUTTER. Well, Mr. Frenzel, as I said in my opening statement, I am concerned about the timetable because it seems to me to be unrealistic. At the same time, I have great confidence in your Ways and Means Committee chairman and in his ability to overcome legislative hurdles.

So I am optimistic from the standpoint of committee leadership. I am less optimistic from the standpoint of timetables that are being implemented—presumably being implemented by others.

I hope that we are subject to the—the timetable issue is subject to reconsideration, and in terms of the content of H.R. 3, Mr. Frenzel, I hope too that major segments of that piece of legislation are also subject to very serious reconsideration.

As I said in my opening statement, I hope we can extract GATT-illegal measures from H.R. 3, and I hope we can eliminate issues that ought to be dealt with in other forums, and make a lot of those changes. And I hope the committee will look seriously at everything that we will submit in our own bill, and that we could put together a composite piece of legislation that would really be positive and constructive and have the best features of all, and with the worst features being eliminated.

Mr. FRENZEL. Thank you very much, Mr. Ambassador. I share your admiration for our leader here. After the tax-reform performance of last year we have given him the Harry Houdini award. We hope to give him permanent possession this year if there is a good trade bill.

Again, I want to echo Congressman Pease's evaluation of your performance. We appreciate your help, and we thank you for your testimony. I yield my time.

Chairman ROSTENKOWSKI. Mr. Rangel will inquire.

Mr. RANGEL. It is good to see you again, Mr. Ambassador, and congratulations on your recent negotiations with the European Community.

Ambassador YEUTTER. Thank you.

Mr. RANGEL. I would like to concentrate on your statement that concerns the facilitation of the competition aspect of the bill, and I do not know whether you were here when the Secretary of the Treasury testified, but you stressed—and I think you should—that it is essential to enhance competition through investments starting at the earliest possible stage when our children are in school.

And then you underscored not only the 3R's but the literacy in science and technology. Now, I laud that, I am excited about it, and it seems to me that this certainly is going to allow us to be competitive with the foreigners.

The problem I have is that none of this is reflected in the budget. As a matter of fact, the Secretary of the Treasury responded that we cannot throw money at education, and I am not suggesting that, but it just seems to me that if this is one of the goals that we want to achieve, and those of us who are aware of the very serious problems that we have in attracting competent teachers and encouraging our teachers to stay in school, that you cannot say that the Secretary of Education is going to study this.

So, because I have to believe that the administration is sincere in this effort, could you give me a better understanding as to how we are going to tackle the problem of unskilled, untrained, jobless, hopeless young people without reflecting anything in the budget that is going to deal with this problem?

Ambassador YEUTTER. Well, budget questions, Mr. Rangel, are probably better directed at OMB, to Chief Miller than at me, but I will try to be as responsive as I can to your question.

First of all, it is my understanding that the two major training programs, which Secretary Baker was talking about a little earlier, that are coming out of the Department of Labor, the one at \$980 million, the other at \$800 million, are reflected in the budget.

Some of that is clearly the redeployment of other training funds, but those two big ticket items are——

Mr. RANGEL. If you will just allow me to interrupt——

Ambassador YEUTTER. Yes.

Mr. RANGEL [continuing]. Because the time is so short. I was trying to deal with your statement on page 15, which really deals with our children and school.

Ambassador YEUTTER. Yes.

Mr. RANGEL. So I am assuming that Labor is not going to deal with that, that it is not a retraining thing.

Ambassador YEUTTER. Correct.

Mr. RANGEL. And it really deals with what we have to do to get our kids out of school with the proper skills so that they can be competitive?

Ambassador YEUTTER. Correct.

Mr. RANGEL. And the Secretary said that not one red cent is going to be appropriated in the educational budget for it because you cannot throw money at the problem that you and I are talking about in your testimony.

Ambassador YEUTTER. Yes. Well, insofar as those programs are concerned, I would assume that most of them will come within the budget of the Secretary of Education, and some of them may spread into other departments of the Government.

But insofar as Federal moneys are concerned, Mr. Rangel, obviously that becomes a question of priorities. I happen to think these are very high priorities and that the Secretaries ought to find the funds. To the degree that the funds ought to come from State and local sources, of course that is a separate issue.

Mr. RANGEL. Well, Mr. Ambassador, it is almost unfair to set these high goals which any decent person in America would aspire to, and then when you ask how are we going to do it, as partners?, to refer it to the Office of Management and Budget, it is unfair to believe that we can really effectively compete unless we have the tools and the resources to invest in human skills.

Ambassador YEUTTER. I agree with that, but individual Secretaries, of course, and Department heads have to establish their own budget priorities. I would hope——

Mr. RANGEL. This is not in the Secretary of Education's priority.

Ambassador YEUTTER. Well, then, you ought to ask him why it is not.

Mr. RANGEL. I should ask him?

Ambassador YEUTTER. Yes.

Mr. RANGEL. This is a part of the administration's bill, and he is not asking for a nickel to support this.

Ambassador YEUTTER. Well, certainly, the objectives that are articulated in the administration's bill are sound, I think we agree on that, and clearly, the enhancement of education is the major long-run factor——

Mr. RANGEL. Well, Mr. Ambassador——

Ambassador YEUTTER [continuing]. But I cannot tell Bill Bennett how to spend his bucks.

Mr. RANGEL. All I am saying is, that if you can go back with your colleagues and try to say that. We are not here to embarrass each other, we are here to work together, and these are goals that we have to obtain as a nation, and that they should not have you, and other Secretaries, talking about these lofty goals, and then to have you to say that I have to go, or someone has to go to OMB to get the resources to obtain them.

Mr. PICKLE [presiding]. Mr. Levin will inquire.

Mr. LEVIN. Welcome.

Ambassador YEUTTER. Thank you.

Mr. LEVIN. Just a couple of brief comments. You mentioned less protectionism was rampant in the Nation than a year ago.

As we set the stage for our discussions and negotiations, it is at least my impression that protectionist is an epithet. Concern is probably deeper, at least from what I have seen in the country than a year ago, and you have said there are no simple easy answers.

I do not think any of us really thought there were. You say there is an impression that you are not tough enough, and I just want to refer briefly to the Secretary's testimony of this morning. And this is one reason there is that impression.

He said we need to keep in mind, that for the most part our trade laws have proven to be effective instruments for opening foreign markets, and defending Americans against unfair practices on the part of our trading partners—that there are a few exceptions to that rule, but not many. I do not expect you to disagree with the Secretary on the record.

I think it might be helpful if you might all talk further about it, though, because you know when I go through your document on trade barriers, I do not see how, in terms of, for example, trade with Japan, it is accurate at all to say that there are just a few exceptions to the rule of open trade.

I just ran through your 1986 report talking about barriers—fish products, agricultural products, telecommunications where there has been some progress, satellites, construction and engineering. Lawyers. I maybe should leave that out. Auto parts, where we have worked together. Soda ash. Large retail stores, and so forth.

I really do not see how, in the view of your own report, the administration can take the position that there are just a few exceptions to the rule of open trade.

Ambassador YEUTTER. Well, Mr. Levin, there are obviously lots of trade problems around the world that we are attempting to combat on a bilateral front, and a multilateral front, but I think the basic point Secretary Baker was attempting to make was that when one looks at a \$170 billion trade deficit, most of that is attributable to factors other than unfair trade practices.

I think Congressman Bonker, one of your colleagues, used 90 percent the other day as being related to macroeconomic factors and perhaps 10 percent related to unfair trade practice kind of issues.

That is not to suggest that the unfair trade practices are unimportant. I happen to think we should continue to go after them very aggressively.

But keeping it all in perspective, the solution to most of that \$170 billion trade deficit lies elsewhere.

Mr. LEVIN. Well, I do not disagree there are other needs, including competitiveness on our part, but it is another thing to say as a characterization of administration policy, that our trade laws have proven to be effective instruments in defending Americans against unfair practices on the part of our trading partners, that there are a few exceptions to that rule, but not many.

I think it adds fuel to the fire of impression, and I think it is also the reality, that this administration has not been tough enough. It has become tougher. But if that is your creed, you are out of step with most of America, and I think most of the Congress. I do not think that is your personal creed.

Ambassador YEUTTER. No, I think, Mr. Levin, that I can defend what we are doing today on that front to any American, anywhere, any time, because I really believe we are operating very, very aggressively.

Now, one can never wipe out all unfair trade practices because we are not living in a static world. We deal with one problem today

and another problem pops up tomorrow. So it is an ongoing process.

But we are not missing much in the way of the challenges that are out there, and we are going after them awfully aggressively.

Mr. LEVIN. Thank you.

Mr. PICKLE. Mr. Daub will inquire.

Mr. DAUB. It is always good to see a fellow Nebraskan, Mr. Ambassador. Welcome.

Ambassador YEUTTER. Thank you.

Mr. DAUB. I want to congratulate you, particularly on getting what I think is as much as could be expected from the latest EC situation, particularly as it affected corn and sorghum sales.

By the way, Mr. Ambassador, I noticed in the last couple of weeks that farmers in Europe are threatening demonstrations and law suits, so you must have done something right.

Ambassador YEUTTER. Thank you.

Mr. DAUB. It is not widely known, or appreciated, that while we were fighting for about \$400 million of corn sales, the EC was threatening to shut down over \$500 million in corn gluten feed sales.

In other words, more was on the line in agricultural product sales than just last year's level of corn sales, as important as they were.

Some in the agriculture community in this country made a lot of noise about the need for a trade war over this dispute. Some of these same people wanted the textile bill veto overridden, too, I might add.

Ambassador YEUTTER. Yes.

Mr. DAUB. I received a letter from the Taiwanese last year saying that if that bill had been enacted, Taiwan would have looked elsewhere to buy its corn.

We supply 90 percent of Taiwan's corn, amounting to \$400 million a year in sales for us. So we could have lost another half billion in corn sales on that bill from the Taiwanese alone.

Consequently, if agriculture, Mr. Ambassador, is our biggest exporter and has the most to win or lose in trade legislation, would you outline for us what you think H.R. 3—that is the Speaker's bill—would do to, or for agriculture.

Ambassador YEUTTER. Well, there are a lot of aspects of H.R. 3, as it is presently drafted, Mr. Daub, that would be very troublesome to agriculture, primarily because of all the GATT-illegal provisions.

As you know, any time we enact and implement a GATT-illegal provision, whether it be in the agricultural area or the industrial area, other countries have the legal right to respond to that.

In other words, once they demonstrate that what we have done is truly GATT-illegal, we either have to give them compensation by opening up additional markets to offset those that we are closing down, which means that one of our domestic industries has to pay the bill for another, or, alternatively, those countries have the right to retaliate against us.

In many instances they would undoubtedly go the retaliation route because we simply would never reach a satisfactory agreement on the compensation that would be involved.

And that being the case, one has to look at which American export products would likely be the subject of retaliation, and in all of these provisions, which I was articulating to Congressman Pease a little bit ago, almost in all cases one of the first priorities in retaliation would be agricultural products. So it would be American agricultural exporters that would frequently pay the price of legislation that would be considered to be GATT-illegal. And there are far too many—well, there should not be any provisions in H.R. 3 or any other bill that comes out of this committee that are GATT-illegal.

But as presently constituted, that bill is filled with a lot of GATT-illegal provisions, and it needs repair work, badly.

Mr. DAUB. You succeeded in getting agriculture into the Uruguay round of the GATT. What is your opinion of agriculture's place in this scheme of things? If you can be more specific, I would appreciate it.

Ambassador YEUTTER. Yes, I would be glad to, Mr. Daub, because that was an important development. We have had agriculture involved in past rounds of negotiations, as you know, including an agriculture committee working during the Tokyo round.

But, unfortunately, nothing much has ever been accomplished in the past in the negotiating environment of an MTN, a multilateral negotiation.

So what we tried to do this time was achieve international agreement on a very broad negotiating mandate for agriculture, one that is sufficient to put everything on the table, let it all hang out internationally, and then try for the very first time to negotiate some sensible, sane rules for all of world agriculture.

We got that kind of a negotiating mandate, if you will, out of Punta del Este. We have now got to follow through and execute in terms of the way we negotiate in Geneva on that point.

But I really believe, Mr. Daub, that we have got the best chance today of negotiating effective rules, international rules in agriculture, that we have ever had in history, and we ought to take advantage of that opportunity.

Mr. DAUB. Mr. Ambassador, please tell them that if they do not pay attention to you they might have to face a marketing loan, and I know your views on that. Thank you for being here and keep up the good work.

Ambassador YEUTTER. Thank you.

Mr. DAUB. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. The Chair would again like to repeat that we have some time constraints, and I would prefer if members would consider submitting their questions in writing. I would appreciate that. Mr. Moody is ready to inquire.

Mr. MOODY. Mr. Chairman, I will follow your advice. Thank you.

Chairman ROSTENKOWSKI. Mr. Pickle.

Mr. PICKLE. Mr. Chairman, let me simply say to the Ambassador that I appreciate his attendance this morning, and thank you for the good job you are doing.

Our subcommittee was privileged to travel with the Ambassador on a CBI trip, and I was pleased to observe the way you administer this job, and the respect that the nations had for you, so we appreciate very much your contribution.

Ambassador YEUTTER. Thank you.

Mr. PICKLE. Now, let me say in connection with the CBI, Mr. Ambassador, one of the problems that has been raised down in that area was that the legislation was only for 12 years, and they thought that was sort of a time certain that it would be phased out, and many of them wanted a longer period, 5 years, or just remove the sunset.

Is that a reasonable consideration that we ought to take up in the Congress?

Ambassador YEUTTER. We do not have a formal position on that yet, Mr. Pickle, as you know, but in response to our trip we now have an inner agency discussion going on of all of the issues that were raised to both of us during that trip and we hope to have something more formal and official to say on that, and a lot of other CBI subjects within the next 2 or 3 weeks, or so.

Mr. PICKLE. Well, we recognize there is a problem down there with the very small nations vis-a-vis the larger island nations, and I hope we can have any recommendations you might want to give our committee in that connection.

Now, Mr. Ambassador, the only thing I want to say to you about the trade bill is that it seems to me that you are indicating to us that we might not be able to get this bill out by Easter time, or by the end of April.

I am disappointed to hear that. This is not a new bill we are considering. It is not a cold bill; this bill is still warm from last year. Most of the things we are going to consider are still hot.

There is nothing new to it, basically, except the competitive part that you have put into it. Now that is important, but I do not think that we ought to hold up a timetable simply because we have now introduced six new elements of competitiveness.

That ought not to be a reason why this bill is delayed, and I would assume that we are going to maintain this schedule. And if that is what the leadership has decided, and if the chairman is in accord, like Mr. Frenzel has commented, then we had better be set to get this bill out of this committee by Easter.

It is kind of like we say in our State, if a fellow says a mosquito can plow, hitch it up, and if the chairman says that we are going to get this bill out by Easter, well, then, we are going to do it, and I hope there is no delay, that—

Chairman ROSTENKOWSKI. Will the Gentleman yield.

Mr. PICKLE. We do not inject 20 different measures just for the sake of delaying this bill. I yield.

Chairman ROSTENKOWSKI. The chairman said that he would try to get the bill out. In a statement opening up these hearings, the Chair also stated that he hates to put timetables together because, ultimately, you are criticized by the press when you fall short of a date certain.

Now, the leadership has laid down a schedule that the Chair is going to try to adhere to, and we hope that we can get the bill out. I am sure that with the cooperation of the membership, and a true bipartisan effort, we can do that, Mr. Pickle.

Mr. PICKLE. I am going to expect that we will do it, and that we will have that kind of cooperation on both sides because I think—

Ambassador YEUTTER. Well, what you are suggesting, Mr. Pickle, is that the administration simply capitulate to everything that is in H.R. 4800 so that you can get a bill out within that timeframe. It is not going to happen.

Mr. PICKLE. Oh, not at all, Mr. Ambassador. We may have to make some changes in H.R. 4800 in one or two parts, although I am not on that Trade Committee as a member, but that is not the main problem. A decision has to be made.

Ambassador YEUTTER. I know, but I hope you will have the courtesy to look at our bill, too.

Mr. PICKLE. Sir?

Ambassador YEUTTER. I hope you will give us the courtesy of evaluating our bill, too.

Mr. PICKLE. Oh, absolutely, and I do not think there is any intent of ignoring the administration's bill, but I am not comfortable just throwing up the bugaboo of a long period of time when I do not know that at this point it is necessary. So I hope we have cooperation on both sides.

Chairman ROSTENKOWSKI. Can the Chair get an indication from the members who wish to inquire—Mr. Jenkins and Mr. Schulze. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman. Thank you, Mr. Ambassador.

I have two questions, one that I am going to submit to you in writing which deals with the fact of the Japanese automobile situation as far as the requirement of middlemen or trading houses, where there seems to be no reciprocity whatsoever here. I thought that you might want to look at that.

Let me ask one general question. In looking at your statement, and in looking at the balances in merchandise trade, we are exporting basically the same amount in merchandise that we have over the last 8 years.

Ambassador YEUTTER. That is correct.

Mr. JENKINS. We have not decreased exports from 1980 until 1986.

Ambassador YEUTTER. Yes. That is correct.

Mr. JENKINS. We have increased \$150 billion in imports, in merchandise.

Ambassador YEUTTER. That is correct.

Mr. JENKINS. So, when we talk about competitiveness, we are still exporting. We have not decreased any there, have we?

Ambassador YEUTTER. No, but we ought to be increasing our exports, and we certainly ought to be increasing them as a result of the decline in the dollar in recent months. And I must say that I am disappointed that we, as a nation, have not demonstrated greater successes in that area. I hope that changes as we move into the coming years.

Mr. JENKINS. I understand we are not growing in exports, but the simple fact remains that the increase in the deficit primarily comes from imports.

Ambassador YEUTTER. That is correct. One reason of course, as you well know, is because the imports got a lot cheaper when the dollar was strong, so they were very price competitive, and in some

areas, such as automobiles, Americans also bought the product because of its quality.

All of that reflects some of the competitiveness difficulties that we have, and one of the reasons that competitiveness is a thrust of the administration, and hopefully, also, a thrust of this committee.

It is a combination of a lot of things, Mr. Jenkins, as you understand very well.

Mr. JENKINS. I think that when we talk about the fact that we are not competing in the world, we mean we are not selling anything. A lot of people have the idea that we have suddenly quit selling anything. We are still selling the same amount we have for the last 8 years.

Ambassador YEUTTER. We are, but we ought to be selling a lot more. I happen to think part of that——

Mr. JENKINS. Either that, or buying less.

Ambassador YEUTTER. Yes, and for those of us who believe in the merits of a free and open trading system, I would rather sell more than buy less.

Mr. JENKINS. Certainly. It just has not worked too well for the last 7 years, has it?

Ambassador YEUTTER. It certainly has not.

Mr. JENKINS. Yes, sir. Thank you.

Chairman ROSTENKOWSKI. Mr. Schulze. Then Mr. Anthony.

Mr. SCHULZE. Thank you, Mr. Chairman.

Mr. Ambassador, when you first came to this job I suggested it was a lot like a new fire chief being hired by a town when the town was already burning down. I have got to say that you have been able to put out more fires than I thought you could.

I think you have done an admirable job.

Ambassador YEUTTER. Thank you.

Mr. SCHULZE. I wish you continued success, and, Mr. Chairman, in the interest of time, I will submit the questions I have in writing to the Ambassador, if he will answer them that way.

Mr. CRANE. Would the gentleman yield.

Mr. SCHULZE. I will be happy to yield to the gentleman.

Mr. CRANE. I would simply like to reinforce a statement made by my colleague from Pennsylvania. We appreciate the great job you have done. And Mr. Chairman, if I may also submit some questions in writing, I will do so.

Chairman ROSTENKOWSKI. Without objection, so ordered.

Mr. Anthony will inquire.

Mr. ANTHONY. Thank you, Mr. Chairman.

Mr. Ambassador, I also would like to say that you are a breath of fresh air in this administration.

Ambassador YEUTTER. Thank you.

Mr. ANTHONY. I think you are the only administration official who has seriously attempted to do anything about our trade imbalance.

You have worked very hard to help agriculture, despite your recent settlement with the EC countries, which many of your agricultural constituencies dislike and feel should never have been completed. But for whatever reasons you may have averted even deeper trouble down the road.

I was especially disturbed by Secretary Baker's statement this morning of how aggressive this administration has been. It suggested that the Congress has been on vacation, and that we have not even been interested in this issue.

Ambassador YEUTTER. Mr. Anthony, may I just take a second to comment on the EC agreement, because I think there have been some misunderstandings of some of our agricultural folks on that issue.

That was an awfully good agreement because, for the very first time, we obtained full compensation from the Community for damage suffered in an accession of additional countries into the community.

As you point out, some of our agricultural friends are disappointed that not all of the compensation came to them, their natural feeling being that since they suffered all the damage they ought to also receive all the compensation.

But the fact of the matter is there was no obligation on the part of the European Community to pay us all that compensation in agriculture. They had an obligation to pay \$400 million in compensation, but there is nothing in the GATT that says they had to pay it all in agriculture.

We got about 80 percent of it in agriculture. Though I would rather it were 90 or 100, 80 is pretty good.

Mr. ANTHONY. Let me ask you a question in that regard. I served at the appointment of Chairman Rostenkowski on an export trade policy commission that lasted for 18 months. You participated and helped us put that program together.

Ambassador YEUTTER. Yes.

Mr. ANTHONY. The President appointed some 20 private sector people. We studied what was happening to agriculture throughout the world, the barriers that were keeping our products from going into those other countries.

My simple question to you: will you take a look at that final product and implement as many of its recommendations as you deem feasible and practical, when you submit your trade legislation to the Congress and as you work toward trying to solve this trade imbalance?

Ambassador YEUTTER. I would be more than pleased, Mr. Anthony, to go back and reread that. I read it at the time that it came out and was impressed with the quality of the work product.

There were a few things in there with which I did not fully agree, but I certainly agreed with the thrust, and it was a fine piece of work on your part, on the part of a lot of other people in the private sector and the Government.

Now with respect to any impact that may have on our proposal, it is too late to change that now because it is all done, but that is not to say that we cannot change things over here in time. I will be happy to go back and take a look at it, and see if there is something there that merits consideration over and above what will already be in our package.

Mr. ANTHONY. I would certainly encourage you to do that. One of the simple requests was to prepare an agricultural impact statement prior to some decisions being made, to indicate to the agricul-

tural community the total extent of economic loss or economic gain.

I would certainly encourage you to take a look at that section. In terms of competitiveness, Secretary Baker also testified about revising and bringing stability to the 861 tax credit situation, R&D tax credit.

Ambassador YEUTTER. Yes.

Mr. ANTHONY. Will you be involved in that, or will you yield to the Treasury in working on that problem?

Ambassador YEUTTER. Only peripherally because that is Secretary Baker's lead, but obviously, as U.S. Trade Representative, I am interested in the overall competitiveness situation, and to the degree that I can have any input in that process with Secretary Baker, I would certainly be supportive, and I talk to the Secretary about every day, so—

Mr. ANTHONY. Well, let me ask you to carry a message to him. Unfortunately, I had to leave when he was testifying and I did not get a chance to ask him this directly.

He said he wanted to bring stability to the R&D tax credit situation and he is talking about competitiveness in 1987. I would like to bring to your attention, that in 1981, there was a 2-year moratorium, another moratorium in 1984, another moratorium in 1985, and another moratorium in 1986 with the moratorium to expire in August of 1987.

Ambassador YEUTTER. Yes.

Mr. ANTHONY. So the administration has had since 1981 to bring some stability to the research and development tax credit situation.

I strongly encourage you to take a look at pieces of legislation which will be introduced today, that will have over a 50 percent majority of the members of this committee saying straighten it out. We need your help, and we want your help.

It is a very important piece of legislation, and an element to competitiveness which needs to be improved. So I encourage you to take a look at it and work with us to accomplish this goal.

Ambassador YEUTTER. Thank you. I happen to think R&D is mighty important in agriculture and in all our other areas. I will be pleased to communicate your views.

Mr. ANTHONY. I will just close and ask you to take a look at two additional things. Why would the Treasury Department classify wet suits manufactured in the Caribbean countries as wearing apparel, resulting in a tariff imposition and limiting their ability to import on a competitive basis?

And also, I wish you would review your removal GSP status for ethanol coming out of the CBI countries at a time when one company in the United States producing ethanol received \$26 million from the Federal Government in terms of a subsidy.

That is absolutely absurd, and I think that that is a policy that has to be reviewed and straightened out, and I would certainly encourage you to do that.

Ambassador YEUTTER. OK. If I may just comment very quickly on both of those.

The first one is entirely within the jurisdiction of Treasury, so I'll simply communicate that issue to Secretary Baker and he can respond at his discretion.

Second, on the ethanol question, that one obviously was debated at great length here in the Congress last year, and you all passed some legislation on that subject. Certainly, that can be revisited, if you wish.

That is a complicated question, and I am familiar with it. I just came back from a CBI trip with Congressman Pickle as you know, and we had some discussion of it while we were there. There are difficult tradeoffs in that issue, it is not a simple one to handle, but certainly, it can be revisited here in the committee, if you wish.

Mr. ANTHONY. Thank you, Mr. Chairman. Thank you, Mr. Ambassador.

Chairman ROSTENKOWSKI. Any further questions?

[No response.]

Mr. Ambassador, I want to thank you very much for joining us this afternoon.

We will start a markup at the subcommittee level some time in early March. I just hope that you will be available for us to give us your counsel.

I want to say, Clayton, you are doing one great job, and I am proud of the fact that it all was recognized a little bit in Chicago.

Ambassador YEUTTER. Thank you. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. The committee will stand in recess until 2 o'clock.

[Subsequently, the following questions and answers were submitted for the record:]

COMMITTEE ON WAYS AND MEANS,
Washington, DC, March 20, 1987.

HON. CLAYTON YEUTTER,
U.S. Trade Representative,
Washington, DC.

DEAR MR. AMBASSADOR: Enclosed are questions submitted by members of the Committee on Ways and Means to which they would appreciate answers for the printed record of the hearing held on February 10.

Thank you for your prompt response.

At the direction of the Chairman.

Sincerely yours,

JOSEPH K. DOWLEY,
Chief Counsel.

Enclosures.

QUESTION FOR AMBASSADOR YEUTTER FROM MR. JENKINS

One concern I have is that Japan has erected multiple non-tariff barriers to U.S. exports entering Japan, such as requiring the use of "trading houses" (or middlemen). This practice has seriously impeded our ability to sell American products to Japan.

At the same time, Japanese companies, at least one that I know of—Toyota—is attempting to eliminate Mid-Atlantic Toyota, its American-owned distributor right here in our own back yard.

I don't know whether this is pure greed or whether it's merely an attempt to make its products more competitive with ours even though the Japanese Government continues to refuse to alter its own trade policies which inhibit the ability of our own products to be competitive in the Japanese economy. I do know, however, that it is precisely reports such as this which cause many of us to want to toughen up our own trade policies—especially when we deal with Japan.

I was just wondering if you were aware of this specific example?

RESPONSE

I am aware of the specific case you mentioned, and have had some correspondence on it. However, it is my understanding from the Department of Commerce that Toyota renewed its contract with the owners of Mid-Atlantic Toyoto, and that the issue has been resolved to their satisfaction.

While the Japanese Government does not require the use of trading companies for those wishing to export to Japan, the experience of American business seems to indicate that Japanese trading companies are often used as intermediaries or distributors.

QUESTIONS FOR SECRETARY BAKER AND AMBASSADOR YEUTTER FROM CONGRESSMAN ANTHONY

Question 1. What steps could be taken to broaden trade negotiations beyond similar trade items? Would not a more equitable result follow from a practice whereby U.S. farm products could be placed in a discussion along with Japanese electronics or automobiles, rather than limiting them to negotiations for Japanese farm products only?

Answer. Let me elaborate on our strategy of negotiating on agricultural exports with the Japanese. In our bilateral trade consultations, we discuss trade problems in all sectors and the Japanese raise their concerns in all sectors. Our focus is not on trading off one sector for another, but in eliminating as many trade problems as possible.

In cases where we believe Japan maintains a policy contrary to its international obligations under the General Agreement on Tariffs and Trade (GATT), we pursue resolution of the problem according to GATT dispute settlement procedures if a bilateral solution is not possible.

We are also preparing to negotiate on agricultural matters on a multilateral basis. Last fall, the major trading countries agreed to reduce agricultural subsidies through negotiations in the Agricultural Negotiating Group of the Uruguay Round. On July 6, we proposed that all subsidies and import barriers that have a trade distorting effect be phased out in ten years. We have suggested that progress could be made in this area as well as in some other sectors in a faster time period. We recognize that other countries will want to achieve early progress in other sectors and have different priorities.

Question 2. Some countries may not place actual quotas on items we export, but use an unreasonable labeling or quality requirement which has the effect of trade restrictions. How might the U.S. better counter measures by trading partners whose regulations, on their face, appear neutral, but in their application discriminate against U.S. products.

Answer. The concern over the use of standards for commercial advantage rather than for the legitimate protection of users in a country is one of long-standing in the United States. In the Tokyo Round of multilateral trade negotiations, negotiations on this issue resulted in the establishment of a Standards Code to prevent abuses of this sort. Since that time, the United States has brought a number of standards related issues to the Code, including the abuses by Japan on its standards for aluminum baseball bats. We have also addressed standards abuses on a bilateral basis, most recently opposing the proposals by the European Community for new rules in the area of meat hormones and the third country meat directive. Further improvements in the Standards Code are an important objective for the United States in the recently initiated Uruguay Round of multilateral trade negotiations.

Question 3. What steps, such as export payment in kind, can be used to reward cooperative trade partners?

Answer. The Export Enhancement Program is not used to reward foreign customers. It is used to meet subsidized competition by the European Community. We are seeking to change the international trading rules in the GATT which permit this type of unfair competition. Allowing market forces to determine what prices will be rather than subsidies will reward all international traders and customers.

Question 4. How can the U.S. increase trade of value-added and high-value exports?

Answer. The correction of the U.S. trade deficit which is now underway will result in a substantial expansion of so-called value-added exports. Such merchandise exports tend to be more sophisticated types of manufactured products. These are precisely the types of products in which the United States has a comparative trade advantage and which will benefit strongly from the coming trade correction. In order for U.S. producers of value-added exports to take full advantage of growing

foreign marketing opportunities, it will also be important to maintain and expand foreign market access.

From the third quarter of 1986 (peak quarter for U.S. trade deficit) to the first quarter of 1987, the volume of U.S. exports was growing at a 14 percent annual rate. Among areas of strong export expansion in this half year period were medical and pharmaceutical products (up 16 percent, at an annual rate), telecommunications equipment (up 16 percent), automatic data processing equipment (up 18 percent), aircraft (up 24 percent) and agricultural machinery (up 60 percent).

Question 5. How can the U.S. expand trade into developing countries?

Answer. In overly simplified terms, our ability to expand U.S. exports to developing countries depends on three factors: (1) price and quality competitiveness of our products; (2) marketing efforts by American firms; and (3) conditions of access to the foreign markets. USTR's responsibility is to obtain improved access for U.S. goods and services in the markets of our developing country trading partners. This is especially important in the more advanced developing countries, in which the growth in income and the diversification of their economies make them very promising markets for consumer goods, capital equipment and high-value agricultural products. Their increased competitiveness in many manufactured goods makes it appropriate for them to liberalize their own import regimes.

We can best achieve improved access to these countries by continuing our policies of aggressively using U.S. trade law to pry open their markets and encouraging their active participation in the Uruguay Round of multilateral trade negotiations.

To be effective, however, our market access efforts must be supported by appropriate macroeconomic policy in the United States (specifically, the achievement of a significantly reduced federal budget deficit and the continuation of low inflation), stronger economic growth in other industrialized countries, and appropriate exchange rates for our major trading partners (both developed and developing countries). Finally, the potential sales from improved market access will be realized only if U.S. exporters expend the necessary money and effort to market their products overseas. Our competitors certainly will take advantage of new market opportunities; our businesses and farm groups need to be at least as aggressive as the competition.

Question 6. How can the interests of U.S. agriculture be better tied to those of the State Department to guarantee that American farm exports will not suffer as a result of U.S. foreign policy?

Answer. I don't know what happened prior to my becoming U.S. Trade Representative but I have found the State Department to be very supportive of U.S. agricultural trade interests. They endorsed retaliation against the EC in the enlargement dispute and support retaliation should the EC impose a tax on vegetable and marine oils.

QUESTION FOR AMBASSADOR YEUTTER FROM MR. ANDREWS

As you will note on the attached fact sheet, the Japanese are building the new Kansai International Airport on an artificial island in Osaka Bay. The Japanese government has excluded foreign companies from bidding on the Kansai project. At the same time, the Japanese have open access to our markets in this area and have in fact engaged in similar contracts for U.S. projects.

Questions. What progress has been made through your negotiations with the Japanese to allow U.S. companies to participate in this project? Has the Administration considered bringing a 301 case against the Japanese on this issue, and if so, what is the result of this review of the case?

Answer. The Administration is concerned that U.S. firms receive fair opportunities to participate in the Kansai project and other major construction projects in Japan.

We have raised this issue with the Japanese government on numerous occasions since 1985. The Commerce Department led a trade mission of U.S. firms to Japan last October, and has been working with interested U.S. architectural, engineering and equipment supplier firms. One U.S. firm has already obtained a business license (necessary to bid within the Japanese "designated bidder" system).

The Commerce Department has also held many discussions with the Kansai International Airport Corporation (KIAC) and the Japanese Government on how contracting procedures could be improved and made more transparent. The Department has also alerted KIAC to our interest in specific business opportunities for our equipment suppliers. KIAC has agreed to publicize the names of winning bidders, and to publish, two weeks before the bid deadline, the names of designated bidders

for contracts over Y3 million (\$200,000). KIAC has also agreed to give appropriate credit to the worldwide achievement of foreign bidders, not just their experience in Japan.

Deputy Undersecretary of Commerce Mike Farren will be in Tokyo this month to discuss this issue again with KIAC and the Japanese Government.

Initiation of a section 301 case was considered last year, but was deferred pending the results of the Commerce Department's efforts.

QUESTIONS FOR AMBASSADOR YEUTTER FROM CONGRESSMAN DICK SCHULZE

Question. 1. I'd like to ask a couple of questions on the private sector advisory system that the USTR manages.

Question. A. How often does the top level, Advisory Committee for Trade Negotiations [ACTN] meet?

Answer. The President's Advisory Committee for Trade Negotiations (ACTN) meets three to four times per year. There are three meetings scheduled for calendar 1987—April 8, July 30 and November 4. Four meetings are scheduled for calendar 1988.

Question. B. How many current members are there in ACTN? Are there supposed to be 45?

Answer. Currently, the ACTN has a membership of 43 individuals (please see list attached). The ACTN charter provides that "the committee shall consist of not more than 45 members including representatives of government, labor, industry, agriculture, small business, service industries, retailers, consumer interests, and the general public."

Advisory Committee for Trade Negotiations:

- Mr. F. Keith Adkinson, Attorney, P.O. Box 70495, Washington, DC;
- Mr. John Akers, Chairman, IBM Corporation, Old Orchard Road, Armonk, NY;
- Mr. Roger J. Baccigaluppi, President and Chief Executive Officer, California Almond Growers Exchange, Sacramento, CA;
- Ms. Barbara M. Barrett, Partner, Evans, Kitchel & Jenckes, Phoenix, AZ;
- Mr. Robert H. Beeby, President and Chief Executive Officer, Pepsi-Cola International, PepsiCo, Inc., Somers, NY;
- Mr. Owen Bieber, President, International Union, United Auto Workers, Detroit, MI;
- Mr. Lawrence A. Bossidy, Vice Chairman of the Board, General Electric Company, Fairfield, CT;
- Mr. Don Butler, National Cattlemen's Association, 1301 Pennsylvania Avenue, N.W., Washington, DC;
- Mr. Mike Curb, President, Curb Records, Burbank, CA;
- Mr. John R. Faust, Jr., Senior Partner, Schwabe, Williamson, Wyatt, Moore & Roberts, Portland OR;
- Mr. Richard J. Ferris, c/o Allegis Corporation, P.O. Box 66919, Chicago, IL;
- Mr. Murray H. Finley, President, Amalgamated Clothing and Textile Workers Union, New York, NY;
- Mr. Benjamin Frank, Embassy House, New York, NY;
- Mr. Maurice R. Greenberg, President and Chief Executive Officer, American International Group, Inc., New York, NY;
- Mr. James Houghton, Chairman and Chief Executive Officer, Corning Glass Works, Houghton Park, Corning, NY;
- Mr. Henry Y. Hwang, Chairman, President and Chief Executive Officer, Far East National Bank, Los Angeles, CA;
- Ms. Mary Jo Jacob, Corporate Vice President, Drexel Burnham Lambert, Inc., New York, NY;
- Mr. Dean Kleckner, President, American Farm Bureau Federation, Park Ridge, IL;
- Mr. Leonard A. Lauder, President and Chief Executive Officer, Estee Lauder, Inc., New York, NY;
- Mr. Kenneth A. Lazarus, Partner, Ward, Lazarus, Graw & Cihlar, Washington, DC;
- Mr. John D. Macomber, J.D. Macomber, Inc., New York, NY;
- Mr. Hamish Maxwell, Chairman and Chief Executive Officer, Philip Morris Inc., New York, NY;
- Mr. Harold M. Messmer, Jr., President, Boothe Financial Corporation, San Francisco, CA;

- Mr. W. Jarvis Moody, Washington, DC;
 Mr. N.J. Nicholas, Jr., President and Chief Executive Officer, Time, Inc., Rockefeller Center, New York, NY;
 Mr. Paul Oreffice, Chairman and Chief Executive Officer, DOW Chemical, Midland, MI;
 Mr. Edmund T. Pratt, Jr., Board Chairman and Chief Executive Officer, Pfizer, Inc., New York, NY;
 Mr. L.R. Pugh, Chairman and Chief Executive Officer, VF Corporation, Wyomissing, PA;
 Mr. J. Steven Rhodes, Vice President, Public Finance Division, Smith Barney, San Francisco, CA;
 Mr. John M. Richman, Chairman and Chief Executive Officer, Kraft, Inc., Glenview, IL;
 Hon. J. Kenneth Robinson, P.O. Box 407, Winchester, VA;
 Mr. James D. Robison, III, Board Chairman and Chief Executive Officer, American Express Company, New York, NY;
 Mr. David M. Roderick, Chairman and Chief Executive Officer, USX Corporation, Pittsburgh, PA;
 Mr. G.A. Schaefer, Chairman and Chief Executive Officer, Caterpillar Tractor Company, Peoria, IL;
 Mr. Peter L. Scott, Chairman & CEO, Emhart Corporation, Farmington, CT;
 Hon. Don A. Sebastiani, P.O. Box AA, Sonoma, CA;
 Mr. Mark Shepherd, Jr., Chairman, Texas Instruments, Inc., P.O. Box 225474, Dallas, TX;
 Mr. Frank Shrontz, President, The Boeing Company, Seattle, WA;
 Mr. Edson W. Spencer, Chairman and Chief Executive Officer, Honeywell, Minneapolis, MN;
 Mr. Robert P. Visser, Attorney, Norfolk, MA;
 Ms. Linda J. Wachner, President, Warnaco, Incorporated, Bridgeport, CT;
 Mr. Peter Wallison, Partner, Gibson, Dunn & Crutcher, Washington, DC;
 Dr. Marina Whitman, Vice President and Group Executive, General Motors Corporation, Detroit, MI;
 Ms. Eleanor Lyons Williams, III, Vice President, Environmental Energy Systems, Inc., Washington, DC;
Question. C. Of these ACTN members is there one representing the steel industry? If not, why not?
Answer. David Roderick, Chairman and CEO of USX, was recently appointed by President Reagan to membership on the ACTN.
 In addition, several steel industry representatives serve on the Industry Sector Advisory Committee on Ferrous Ores and Metals for Trade Policy Matters (ISAC #7). The ISACs (17 in all) are sector specific private sector advisory committees that the U.S.T.R. has in cooperation with the Department of Commerce. (Please see ISAC #7 membership list attached.)
 Industry Sector Advisory Committee on Ferrous Ores & Metals for Trade Matters (ISAC 07):
 Mr. Thomas D. Brown, Consultant to Brown Steel Company, Columbus, OH;
 Mr. Howard B. Brownstein, Peregrin Metals Group, Inc., Rosemount Business Campus, Rosemount, PA;
 Mr. Robert E. Cummings, Jr., Vice President, Sales & Mktg., Hitchiner Mfg. Company, Inc., Post Office Box 2001, Milford, NH;
 Mr. Herschel Cutler, Executive Director, Inst. of Scrap Iron & Steel, Inc., Washington, DC;
 Mr. John F. Feist, President, Government Relations Assoc., Inc., Washington, DC;
 Mr. Frank Fenton, Vice President, Intl. Trade, American Iron & Steel Inst., Washington, DC;
 Mr. Mark S. Gleeson, President, The Refractories Institute, Pittsburgh, PA;
 Mr. David C. Hawley, Director, Federal Public Affairs, Inland Steel Company, Chicago, IL;
 Mr. William L. Hoppe, Special Asst. to the Chairman, Bethlehem Steel Corporation, Bethlehem, PA;
 Mr. Walter M. Kiplinger, Jr., Vice President, Govt. Affairs, Cast Metals Federation, Washington, DC;
 Mr. Arthur W. Lupia, President and CEO, Border Steel Mills, Inc., Post Office Box 12843, El Paso, TX;
 Mr. Francis T. Malloy, Director, Long Range Planning, Weirton Steel Corporation, Weirton, WV;

Mr. Robert E. Milligan, Manager, Administration, National Steel Corporation, Pittsburgh, PA;

Mr. Peter B. Mulloney, V.P. & Asst. to Chair, United States Steel Corp., Pittsburgh, PA;

Mr. Clifford D. Nelson, President, Nelsen Steel & Wire Co., Franklin Park, IL;

Mr. John F. O'Toole, President & CEO, Franklin Steel Company, Franklin, PA;

Mr. Phillip M. Ola, Vice President, Govt. Affairs, Steel Service Center Institute, Washington, DC;

Mr. William J. Pendleton, Director, Corporate Affairs, Carpenter Technology Corp., Reading, PA;

Mr. S. Victor Radcliffe, Vice President, National Forge Company, New York, NY;

Mr. David S. Soble, President, Interstate Steel Company, Des Plaines, IL;

Mr. Gerald J. Stein, Senior Vice President, ATCOR, Inc., Harvey, IL;

Mr. George F. Vary, International Trade Counsel, ARMCO, Inc., Washington, DC;

Mr. George Watson, President, The Ferroalloys Association, Washington, DC;

Mr. Kenneth A. Wernick, Vice President, Harcon Corporation, Boston, MA.

Question. D. How does one go about becoming a member of ACTN? How long is the longest time it has taken for a candidate to be cleared before becoming a member?

Answer. ACTN members are appointed by the President of the United States to serve a two year term. The U.S.T.R. is consulted by the White House to evaluate a candidate's expertise and qualifications.

All nominees must be U.S. citizens and organizations represented must be U.S.-owned and controlled. Members are selected primarily for their expertise and knowledge of their respective sector and of trade matters, and are expected to provide advice to the government as general representatives of those interests. Every effort is made to maintain balanced representation on the ACTN; balanced representation includes balance among sector and product lines, between small and large entities, among geographic areas, and among demographic groups. Appointment to, and participation on, the ACTN cannot be accomplished until a security clearance has been conducted.

Individuals may correspond with the U.S.T.R. requesting consideration for membership on the ACTN. In addition, candidates may be nominated to serve on the ACTN by Members of Congress, another Cabinet officer, a trade association, or the general public.

Security clearances are conducted by the Federal Bureau of Investigation in coordination with the Office of the Counsel to the President. The clearance process averages six to eight weeks provided that all forms have been correctly completed and submitted.

Question 2. Do you, in your role as the USTR, participate in any of the National Security Council meetings, particularly when they might affect U.S. Trade Policy?

Answer. Yes. USTR attends National Security Council meetings related to trade policy issues.

Question 3. Is the NSC a member of the Trade Policy Committee [TPC], which you chair and which is intended to serve as the principal interagency mechanism for formulating trade policy?

Answer. The NSC is a member of the TPC. In addition, the NSC participates in meetings of the sub-Cabinet Trade Policy Review Group (TPRG) and the staff level Trade Policy Staff Committee (TPSC).

Other member agencies consist of the Departments of Commerce, Agriculture, State, Treasury, Labor, Justice, Defense, Interior, Transportation, and Energy, the Office of Management and Budget, the Council of Economic Advisors and the International Development Cooperation Agency. The White House Office of Policy Development and the U.S. International Trade Commission attend meetings as observers.

Question 4. Would you please comment on the latest developments regarding the Uruguay round. What progress has been made since the round was initiated in Punta Del Este?

Answer. Here are some highlights of the first few months of the negotiations:

Agriculture. Following up on the consensus for action reached at the OECD Ministerial and at the Venice Summit, we will submit a comprehensive proposal for agricultural reform in early July, after consulting with the private sector and the Congress. Our proposal is for negotiations to phase out all trade-distorting subsidies and import restrictions.

Institutional improvements. We signalled the high priority we place on restoring confidence in the GATT system by sending Deputy USTR Mike Smith to Geneva for the first meeting. The problems are well known—delays in resolving disputes, lack of surveillance over implementation, and so on. What is needed is the political will to improve the system. We were pleased that Australia took the initiative by propos-

ing that the GATT members submit annual reports on their trade policies to a Special Meeting of the GATT Council, and that there be greater ministerial level involvement in GATT affairs. We also intend to make some specific suggestions of our own this fall.

Intellectual property. We submitted a discussion paper on the relationship between trade and deficiencies in the protection of intellectual property rights. In it we called on our partners immediately to sign the current draft anticounterfeiting code as a first step, but there were no takers. We are now preparing, in cooperation with the private sector and congress, a draft code to improve protection and enforcement of intellectual property rights including patents, trademarks, trade dress, copyrights, mask works and trade secrets. We intend to put the draft on the table this fall.

GATT Articles. With scant help from our developed partners, we overcame strong opposition from many developing countries and placed on the agenda a review of GATT articles dealing with state trading, and import restrictions maintained ostensibly for balance of payments and infant industry reasons.

Tariffs and non-tariff measures. We are proposing that these negotiations proceed on a "request/offer" basis rather than seeking a formula cut. The request/offer method will allow us to target more specifically tariffs and non-tariff barriers in other countries which if lowered would provide us with better market access.

Non-tariff Measure Codes. We submitted a paper proposing improvements in the Import Licensing Code and the Standards Code: stricter discipline and simpler procedures in the former, and acceptance by our partners of U.S. test data in the latter. We are also continuing to seek expansion of Government Procurement Code coverage. On the key issue of trade-distorting subsidies by both developed and developing countries, we have called for a complete review of the GATT rules in this area, particularly those relating to primary products, export subsidies, domestic subsidies and development programs. Finally, we have proposed that certain trade-distortive measures not currently covered by the Subsidies Code—e.g., targeting—be discussed in the Subsidies Negotiating Group. Our partners have countered by suggesting that the focus of the negotiations should be on countervailing duty practices (ours in particular).

Natural resources. We have proposed that the negotiations focus on energy-based products, in particular dual pricing subsidization practices and government ownership/control policies of several countries. As expected, we have run into some stiff opposition in the early going.

Services. We are pushing first for early agreement on a set of principles for trade in this area. Our concept is to then conclude a series of sectoral agreements by the end of the Uruguay Round. Many developing countries, however, remain unconvinced that they would benefit from international rules for trade in services.

Safeguards. Five Pacific Basin countries—Hong Kong, Singapore, Korea, Australia and New Zealand—have proposed tightening the rules governing emergency import restrictions, creating an international surveillance body and phasing out so-called grey area measures within a two-year period. Brazil also submitted a proposal, which received little support, requiring countries to take adjustment measures before restricting imports. Both papers favor action only on a most-favored-nation basis. Having taken the lead in the Tokyo Round, we are biding our time to see if the political will now exists to undertake meaningful reform. We may, however, make a proposal of our own later this year.

Tropical products. Discussions have focused on the development of a data base to support the negotiations and on the techniques and modalities for the negotiations. The developing countries are the demandeurs in this group, so we are playing a low profile role.

Standstill, and Rollback. We have formally indicated that we regard Brazil's action in denying import licenses to 2,500 items in January as a violation of the standstill agreement, and that we wish to undertake rollback consultations with Japan concerning its quantitative restrictions, in particular on agricultural products. Conversely, the European Community has notified us that it regards the customs user fees, superfund, and the Mattingly Amendment affecting machine tools procurement as violations of the standstill agreement.

Investment. We have tabled a work program aimed at producing practical definitions early on to overcome the continuing resistance of many developing countries to meaningful progress in this politically sensitive area. We have recently had some very encouraging support from other countries in this group, a welcome change since we've been carrying the entire load until now.

Worker rights. We intend to propose at the July 15 meeting of the GATT Council that a working party be established to examine the impact of failure to respect worker rights on trade and how the GATT might deal with these effects.

Question 5. On the United States-Canadian trade talks, do you truly believe we can conclude a good agreement by the end of this year?

Answer. Yes, we believe we can conclude a good agreement with Canada by the end of the year, and we plan to submit an agreement for congressional review by the October 5 deadline. Certainly, there is some tough negotiating ahead as we approach the final stages of the talks and push to resolve the most difficult issues. However, we expect to reach agreement with Canada on schedule.

Question 6. How would you recommend the committee address the issue of worker rights in the context of U.S. trade laws?

Answer. We believe that the issue of worker rights is already being addressed effectively under the trade laws. Worker rights provisions are included in the legislation authorizing the Generalized System of Preferences (GSP), the Caribbean Basin Initiative (CBI) and the Overseas Private Investment Corporation (OPIC). Under these provisions, countries must be "taking steps" to provide their workers internationally recognized worker rights in order to receive the benefits of these programs. Through both the CBI designation process and our reviews under the GSP, we have encouraged progress with some success. In addition, we have sought to introduce the issue of worker rights in the Uruguay Round of multilateral trade negotiations.

On the other hand, we oppose amending Section 301 of the Trade Act of 1974, as amended, to make denials of worker rights an "unreasonable" practice. Whereas the GSP program, the CBI, and OPIC programs involve benefits bestowed unilaterally by the U.S., action under Section 301 could breach our international obligations. We do not believe that such an amendment would materially advance the cause of worker rights. Indeed, unless we routinely invoked the national economic interest exception to any mandatory action, we would seriously reduce, perhaps even eliminate trade with nonmarket economies that routinely deny many workers rights. Yet routine nonapplication of worker rights provisions to communist countries would make it far more difficult to apply the provisions to our allies, even if otherwise appropriate.

The Administration's views on this issue were presented in detail on March 18, 1987 by Ambassador Michael B. Smith, Deputy United States Trade Representative, before the Senate Committee on Finance.

AFTERNOON SESSION

Chairman ROSTENKOWSKI. The committee will come to order.

Certainly, this afternoon, it is an honor and a privilege for those of us on the Ways and Means Committee to welcome the Speaker of the House of Representatives.

Mr. Wright was to have been here last week. However, because of a very unfortunate circumstance he was unable to testify jointly with the minority leader.

Mr. Speaker, I would just like, on behalf of the membership here, to express our gratitude for your total commitment to trying to help solve our trade problems.

We recognize that this has been a growing menace, and we recognize now the error of partisanship. I am just hoping that we can continue to work together on this legislation as the Ways and Means Committee structures its portion.

I am pleased that you have taken the time out of your busy schedule. Your presence here indicates your total commitment, and the recognition that you are giving this legislation.

So, having said that, unless other Members have comments, Mr. Speaker, welcome to the Ways and Means Committee. We are looking forward to your testimony, and I am sure that it will be a pleasant experience for you.

STATEMENT OF HON. JIM WRIGHT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS, AND SPEAKER OF THE U.S. HOUSE OF REPRESENTATIVES

Mr. WRIGHT. Thank you very much, Mr. Chairman. Thank you for this opportunity. I have come to ask your committee to take decisive action on the most serious economic problem facing our country today. That problem is the continuing decline of America's competitive position in world trade, and the resultant erosion in our standard of living.

That problem grows more and more urgent. For 6 years the American Government has sat on the sidelines while our industries lost market share and our workers lost good jobs. While other countries have been active in the promotion of their products, America has been passive. We cannot allow the Federal Government to be benched for two more years. The 100th Congress must act now to put America back into the game.

In the past few weeks we have expressed a strong bipartisan determination to do just exactly that. Two weeks ago, the minority leader, Mr. Michel and I, asked the chairmen and the ranking minority members of the seven committees of jurisdiction, who will have some portions of the trade legislation under their respective purviews, to sit together and talk about setting some deadlines, and we did exactly that.

And all the committees agreed to a timetable for the timely, active consideration of this legislation. The Ways and Means Committee certainly will play a key role in the writing of the legislation that the House will consider in late April.

Mr. Chairman, I know that you will continue to demonstrate the vigorous and effective leadership that has become your hallmark as chairman of this committee.

The principal bill before the committee is H.R. 3, the Trade and International Economic Policy Reform Act. It has 180 cosponsors. This bill passed the House last year with a huge bipartisan majority. I hope that both parties will be able to work together this year in initiating the policy reforms that we so urgently need.

Last year, America's trade deficit again topped the record of the previous year. Contrary to the rosy economic forecasts, the deficit jumped to nearly \$170 billion, and, as a consequence of this long string of trade deficits, America has accumulated a foreign debt of \$193 billion, or \$3,000 per American family. That is how much we owe to other countries. In just a few years we have fallen in status from the world's largest creditor nation to the world's largest debtor nation. Ever increasing shares in the ownership of American banks, in American agricultural land, American's large corporations, and American's public debt are owned by foreigners.

Now what do those numbers really mean? Well, let me tell you. They mean a declining standard of living for Americans, that is what they mean. They mean that average weekly income, in real dollars, has dropped by about 14 percent in the last decade. They mean that the new jobs being created in America today are almost three times as likely as in the 1970's to be low-paying jobs, worth less than \$7,000 a year. They mean that the American dream of

economic progress will, for many people, remain just a dream, unless we turn it around.

Now there are several causes of this economic predicament. First, other countries are taking advantage of our weak trade policies. They use a thicket of rules to keep our products out. When the U.S. Trade Representative recently compiled and analyzed all foreign trade barriers, the list required 295 pages.

Second, our domestic education system is just not preparing our children and our youth for the challenge of a world economy. In a recent test involving four school systems, no American school studied had an average score as high as that of the school with the lowest average score in three cities in Japan and China. And that is truly self-defeating.

Third, American industry seems to have lost its way. They have become mesmerized by short-term profits. We are underinvesting in research. We are underspending in plant modernization. We seem to have forgotten that an economy cannot get richer from companies buying each other and taking each other to court.

Certainly, not all of our problems can be cured by new legislation, but without new legislation, there will be no way to arrest our economic decline. H.R. 3 is truly an omnibus bill. It offers a comprehensive package of new policies and programs to promote exports, protect intellectual property rights, stabilize the international financial system, broaden education and training opportunities, expand agricultural markets, and reform our trade laws.

Many of our trade problems can be directly traced to the delays, the abuses of discretion, and ill-considered policy decisions by those officially appointed to carry out American policy. One of the worst delays was the machine tools case. Despite the fact that the petition was filed on national security grounds back in March of 1983, the President's action on this case did not begin until January of this year, almost 4 years later. With respect to abuse of discretion, what better example is there than section 301 regarding unfair trade? For 5 years, the President practically ignored the provision. Even now, he seems unwilling to use it.

And finally, what idea could be more sensible than trade adjustment assistance, a program to help workers get retraining or relocation assistance in order to undertake new jobs when they are thrown out of work by imports? Yet the administration eviscerated the Trade Adjustment Assistance Act, and then tried, unsuccessfully, to get Congress to abolish it.

The challenge facing this committee, it seems to me, is to write a bill that will encourage an American industrial renaissance, and restore reciprocity to the international trading system. It seems to me that strict goals ought to be set for the Uruguay round negotiations, including reform of the General Agreement on Tariffs and Trade. Better incentives are needed for other countries to open their markets. Better incentives are needed for Americans to invest in modernizing our industry and upgrading the skills of our labor force.

One provision in the bill to restore reciprocity is what has come to be known as the Rostenkowski-Gephardt-Bentsen amendment. I cannot think of any legislative provision in recent years that has been more blatantly misconstrued. That provision, as it appeared

in the bill last year, is not protectionist by any stretch of the imagination. It is precisely the reverse. It is antiprotectionist. Its purpose is to get other countries to dismantle their trade barriers and abandon the protectionism which too many of them are practicing today against American goods. Its primary aim is not to curb imports but to promote exports. I support this provision. A huge majority in the House supports this provision. I know that you will be examining it carefully in the subcommittee and the full committee, just as you will the entire bill, and that you will find ways to improve upon it.

It is time for Congress to take action. Mr. Chairman, our children will not forgive us if we squander this opportunity and dissipate America's hard-won economic birthright. I urge the administration to cooperate with us in resharpening America's competitive edge. A truly bipartisan approach calls forth constructive ideas from both sides, and a willingness to consider one another's suggestions.

Last year's legislation was broadly bipartisan in character. Many, and probably even most of its provisions enjoyed unanimous backing in their committees of origin. And this year, with the active cooperation of the administration, I believe we can do even better.

Mr. Chairman, thank you again for inviting me here today. I salute your committee for your action in taking up this bill. I commend you on the diligence you already are exhibiting in staying in session today, this week, to hear testimony, and I just want to say that together we will get the job done.

Chairman ROSTENKOWSKI. Well, thank you very much, Mr. Speaker. I can only attest to the fact that there is a feeling here on the committee that legislation will be produced. I just hope that we can continue working with the minority and that there will be a bipartisan effort and a product laid before the House of Representatives in a very short while.

Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman.

I would also like to thank the Speaker. I appreciate your indication of bipartisanship, which you have continued to promote over the past month. I applaud you for that, because I think if we all just strike at each other then we will end up with no bill, and I think we all want a bill. We may have different routes to get there.

One question I have concerns an issue you mention on page 2 of your statement, Mr. Speaker. You indicate there that new jobs today are almost three times as likely to be low-paying jobs, worth less than \$7,000 a year than was the case in the 1970s.

But this morning's the Wall Street Journal—and I quote them—says the latest employment figures are in, and the jobless rate held steady at 6.7 percent last month, the lowest level in nearly 7 years. Despite a substantial increase in the size of the labor force some 448,000 jobs were created in January.

The article goes on to say "Labor Department statistics show that over the past 4 years more than three-fourths of new jobs were in the three major higher paying occupational categories—managerial, professional, technical, sales and administrative support, and precision production craft and repair.

On the other hand, only one-tenth of jobs created over this span were low-end minimum wage service jobs.

I do not know if you read that, or not.

Mr. WRIGHT. No. I have not.

Mr. DUNCAN. That is contrary to what you have said, which might have come from a flawed report put out some months ago, by one of the subcommittees, which report I think they later disowned. In any case, the Journal report is a little bit different from what you have just said.

Mr. WRIGHT. Mr. Duncan, if my figures are incorrect, then I would be happy to stand corrected.

I was basing my comments upon a report prepared for the Joint Economic Committee to the effect that, if I remember correctly, in the 1970's, only about 19 or 20 percent of the jobs newly created paid less than \$7,000 a year, but that today, something like 58 percent of those jobs newly being created pay \$7,000 a year or less.

I think a careful reading of the latter portion of the statement to which you refer does not necessarily dispute that, since it refers to jobs in managerial and professional categories. Services, as opposed to production.

And it seems to me that whatever the figures may be—and while I am happy that unemployment has not been rising in the last few months—it seems to me that 6.7 percent is not something to be pleased with but something to try to improve upon.

I think we need to be very concerned over the fact that we are losing high-skilled, high-paying jobs in American industry. Many of the people being displaced by the tide of imported goods, and the removal of the machines of production and the mechanisms of production from the United States, in some cases to other countries, are forced to take jobs in the service trades which are less skilled and less remunerative.

So to the degree that that is not the case, I would be willing to rejoice.

Mr. DUNCAN. Well, I think we are all concerned with the situation. We see it in our own districts. That is why I am hopeful that you will continue to work with the minority leader, the chairman, and everyone else, so that we can solve some of these problems we are faced with, not only in my community but in yours, and everyone else's. I thank you so much. Thank you, Mr. Chairman.

Mr. WRIGHT. Thank you.

Chairman ROSTENKOWSKI. Mr. Rangel.

Mr. RANGEL. Mr. Speaker, you know that your presence here really enhances the ability of this committee and the Congress to craft an effective bill.

I would like to direct my questions to your comment in your remarks about the needs for our domestic education program to be challenging.

It is interesting to note that in Secretary Baker's statement, as well as Ambassador Yeutter's statement, that they emphasized that in order for us to be competitive, that we are really going to have to direct some attention to this. As a matter of fact, Ambassador Yeutter indicated that we had to go beyond the three R's, and to make certain that our kids learned the new language of science

and technology, and similar statements were made by Secretary Baker.

I inquired as to how we were going to pay for this, especially in view of the fact that the administration had wiped out certain educational programs in their budget, and certainly had dramatically reduced student loans, Pell grants, and other assistance.

The Secretary of the Treasury indicated, that while there was no moneys made available in the bill for education, that you could not resolve the problem by throwing money at it, and he suggested that Secretary Bennett was not left out of this thinking, that he would have to take the monies that are available and to come up with new innovative challenging ideas in order to prove the education opportunities for our kids.

Since you have mentioned education, do you believe that it will be necessary to go beyond the administration's limited budget for education in order to achieve the goals that you expounded in your testimony?

Mr. WRIGHT. Mr. Rangel, I surely do. I think that is the biggest challenge facing us as a nation. We have stood, all of our lives, as the Nation which promotes educational excellence for all of our children, not just some of them, and, if we ever lose that, we will have lost something very precious to the American character. It bothers me to think that we are falling behind in education, and yet the truth is that we are.

A disproportionate share of those whom we graduate from our colleges and universities with graduate degrees, master's and doctor's degrees, are not American citizens at all, but they are exchange students from other countries.

It bothers me to think that last year we graduated about 54,000 young Americans in scientific and mathematical and engineering disciplines, from American colleges and universities, while Japan, with half our population was graduating half again more than we were, about 77,000.

We fall behind and ignore education, and we wonder why we fall behind in trade. It bothers me to contemplate that the Japanese have in the United States today an estimated 10,000 business representatives representing Japanese firms selling Japanese goods, all of them speaking excellent English, while we, by contrast, are said to have only about 500 business representatives in Japan representing American firms, and hardly any of them speak any Japanese at all.

Once again, ignore education you fall behind in world trade. So it seems to me that a much higher priority has to be given to education.

While it is perfectly true, I suppose, that you cannot solve that or any other problem simply by throwing money at it, as is so often said. I think it is equally true that you cannot have better education without being willing to pay for it.

You know, it is all right to say we are going to pray for better schools, but we are also going to have to pay for better schools. While we cannot solve the problems just by throwing money at them, we darn sure cannot solve them just by throwing words at them.

You have got to be willing to pay for what you get, and I think that is the challenge that faces us all.

Mr. RANGEL. Thank you, Mr. Speaker.

Chairman ROSTENKOWSKI. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman, and thank you, Mr. Speaker for your testimony.

I think you have been a real leader in the trade area. I well remember your leadership role last year in pulling together from a variety of committees all of the elements that ultimately became H.R. 4800.

And I know that through your impetus, that that bill was re-introduced this year as H.R. 3, and that this committee, and all the committees are on a fast-track of getting trade legislation passed through the House.

I commend you for that interest and that dedication.

Following up on what Mr. Rangel said about education, we were told this morning by one of the administration witnesses, that the President, when he says that we have to exercise more leadership in education to upgrade our technological skills, our language skills, and mathematical skills, did not have in mind spending more money, but using the, quote, bully pulpit, end quote, of the Presidency to encourage States and local school districts to spend more money, and to raise their taxes for education.

I guess I want to ask you whether you think that that bully pulpit approach will be effective and is appropriate under the circumstances?

Mr. WRIGHT. Well, it really has not been very effective in the last 5 years, and I think we are indulging in self-deception if we try to convince ourselves that we can substantially improve the quality of American education without being willing to pay for it.

I think it is a cop-out, if we, at the Federal level, say, "Oh, we are going to lecture the local school districts until they do better." This is a national problem.

This is not a problem for Huntsville, AL, or Fort Worth, TX, only. It is a problem for all of those communities. It is a problem for your communities in Ohio and it is a problem for my communities in Texas, and it is a problem for all of our communities. It is a problem for our country.

Therefore, it seems to me, that in the interest of our national security, the Federal Government needs to be involved.

Mr. PEASE. Thank you very much, Mr. Speaker, and thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Matsui.

[No response.]

Mr. Anthony.

Mr. ANTHONY. Mr. Speaker, I was curious as to your feelings concerning attempts to put some type of monetary component in the trade legislation.

Many of our private sector business people who will testify later this afternoon and have submitted advance copies of their testimony, indicate that it is their personal opinion, and probably will be their testimony, that monetary policy should not be in trade legislation, much as it is a major component of the trade issue.

And I was just curious, if you would care to expand on that?

Mr. WRIGHT. I think I am going to defer to people whose knowledge is greater than mine. I would just observe in passing, that we should not rely wholly upon that, nor even primarily, because all of us know that for the last 2 or 3 years we have been told: "Hold on. This thing is going to correct itself because the value of the dollar on world markets is falling. It is a self-correcting mechanism and next year we will not have this problem."

We heard that the year before last, didn't we? The problem grew worse. We heard that all of last year, didn't we?

There were people saying: "Don't rush to judgment, don't be so hasty." Learned journals were printing editorials saying, Congress is in too big a rush. You ought to just settle back down and let this thing find its level. Now that we have lowered the value of the dollar we are going to see a dramatic improvement this year in our balance of payments.

Well, we saw a dramatic decline in our world situation, and a dramatic increase in our trade deficit. So we cannot rely on that. It is probably useful for the value of currencies to reach a more realistic level.

But if we just sit back and suggest that Paul Volcker alone, and unaided, can cure this problem for us, it seems to me that the Congress of the United States would be engaging in a very dangerous cop-out.

Mr. ANTHONY. Thank you.

Chairman ROSTENKOWSKI. Mr. Gregg.

Mr. GREGG. Thank you, Mr. Chairman.

Mr. Speaker, I was wondering: we have heard from Mr. Penner and Mr. Baker that they feel there is a direct relationship between the budget deficit and the trade deficit.

I was wondering if you ascribed to that view also.

Mr. WRIGHT. Yes, I think that is probably true.

Mr. GREGG. Do you feel it is a substantial relationship as was Mr. Penner's position?

Mr. WRIGHT. I think there is unquestionably a relationship. The fact that we have all gotten onto a borrowing kick—you know, the idea that we can just rock along and put it all on the credit card and send the bill to the grandchildren. I think that is a very dangerous philosophy.

I think it promotes all kinds of problems. It increases competition for the sources of money that would otherwise be available in the private sector for the promotion of more modern developmental techniques in our machines of production.

There is not any question in my mind but that there is a direct causal relationship.

Mr. GREGG. Do you think that you can reduce the trade deficit more effectively through legislation such as H.R. 3, or by reducing the deficit?

Mr. WRIGHT. We have added more to the national debt in the last 6 years than all of our predecessors in the entire history of the United States added in 192 years of constitutional government.

I think that may have a relation to the trade deficit. I think we need to be diligent in the pursuit of both, and honest and frank in a recognition of both problems, and if we are not willing to pay for something then we ought not to have it.

And if we demand it and have to have it, if we have got to spend \$27 billion more on weapons of defense and military prowess: Then let's pay for them for crying out loud. Let's give the American people the credit for being honest and honorable enough to be willing to pay as they go.

We did it during the Korean war. We fought the whole Korean war without adding to the national debt. Harry Truman paid as he went. Even during the costly Vietnam war, with all of its agony, we did not build up big debts for our children to pay. And yet I was at the White House a few days ago and Secretary Weinberger said we have got to have \$27 billion more than we had last year for defense, national weapons and military needs. And I said to him at the time, "Look, Cap, tell us how you are going to pay for it, where you are going to get the money, and I will go along with you if we need it; but don't sit there and say you have got to have \$27 billion more for the Pentagon while at the same time your President is sitting on the other side of me saying if you send me any revenue bill I'll shoot it down. "Make my day." You cannot have it both ways. You've got to have it one way or the other.

It seems to me that we ought to have the honesty to face up to the problem, and to say whatever we are going to spend we are going to pay for. That will help us cure the budget deficit.

But I do not think we can just sit back and take some convenient out on doing our work on the trade problem, saying, well, let's just wait around, and maybe some day they will cure the budget deficit, and if they do, then maybe we will not have a trade deficit. I think that is a cop-out, too.

Mr. GREGG. I would wonder then whether we are going to move the budget proposals of the House as rapidly as we are going to move H.R. 3?

Mr. WRIGHT. We are going to move them on target. We are going to move them a month more rapidly than we did last year or any year previously.

Mr. GREGG. And would those budget proposals include then some sort of pay-as-you-go mechanism, perhaps a surtax as was used in Korea and Vietnam periods?

Mr. WRIGHT. You would favor that I would recommend that? Would you suggest it to your friends who are on the Budget Committee?

Mr. GREGG. I am just wondering whether that will be a proposal of the budget proceedings?

Mr. WRIGHT. I do too. [Laughter.]

Mr. GREGG. I think you may have more influence over that than I do, Mr. Speaker. Thank you.

Chairman ROSTENKOWSKI. Mr. Flipppo.

Mr. FLIPPO. Thank you, Mr. Chairman.

Mr. Speaker, I just want to commend you on your comprehensive statement and the recognition in that statement that trade is a very important factor; that monetary policy is a factor; that competitiveness and education and all the other things are a factor. But particularly I get your message that you are not willing to wait around for the market, or some laissez-faire invisible hand to correct this problem. We have been waiting a considerable length of time, and you think that markets have a role to play, but you

also think that we have a role to play, or Government has a role to play and you want to get on with it. Is that right?

Mr. WRIGHT. That fits it pretty well, Mr. Flippo. It surely does. I think "laissez-faire" is a good theory, but that is why governments exist, to keep laissez-faire fair and keep free enterprise free.

Mr. FLIPPO. I thank the Speaker.

Chairman ROSTENKOWSKI. Mrs. Kennelly.

Mrs. KENNELLY. Thank you for putting the machine tool situation in proper historical perspective as you did in your statement this morning. Members of Congress on both sides of the aisle insisted that this question be addressed, and by the time that it was addressed, we had lost 50 percent of the machine tool business.

But we are going to have to keep up this intensity. There is no doubt in my mind that there is still reluctance on the part of the administration to admit the problem is as bad as it is, and that we have to address it with legislation. So I thank you for your statement and I salute your leadership.

Thank you, sir.

Mr. WRIGHT. Thank you, Mrs. Kennelly.

Chairman ROSTENKOWSKI. Mr. Schulze.

Mr. SCHULZE. No response.

Chairman ROSTENKOWSKI. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman. I too welcome the Speaker before the committee today. I think your testimony touched upon a number of significant problems in a very complicated matter. The trade deficit is not just barriers to trade internationally. It goes significantly beyond that. All of us in the entire nation should do some soul searching on our trade posture, including management and labor, government and business, examining some of the adversarial attitudes we have between labor and management, between government and business, and so forth. Your comments about the educational performance in this country, I also think are right on target.

On the other hand, there seems to be a direct correlation between increased Federal funding in the education field and declining literacy. I am not saying there is a direct cause and effect relationship, but there is evidence to suggest there might be a relationship. Because, as I say, the funding increases and the performance standards don't correlate.

There is another thing that you touched upon though, that intrigues me in the light of what we did last year. You talk about American industry having lost its way mesmerized by short-term profits which is absolutely on target. You know, the merger mania seems to contribute to that. You have to make a showing to that shareholder constituency out there, and profits are the best way to try and do that.

However, I am troubled a little bit by our most recent performance on tax reform and its impact on investment, research, spending and plant modernization. The shift of \$120 billion to business adds to the drag of business' ability to be more competitive. Wouldn't you agree?

Mr. WRIGHT. Mr. Crane, I don't want to pose as an authority on tax policy before the committee whose primary responsibility is tax policy.

I tend to feel that we had a pretty good program that might have stood some improvement and some targeting in the investment tax credit. It seems to me that it might be wise for certain tax benefits to be made available if they are used for investment in those things that modernize our aging industrial plant and machinery, and improve productivity, and to make our industries more competitive on world markets, and not made available just for mergers or hostile takeovers or other forms of monopolistic practice.

Mr. CRANE. I concur in that. I know there is a general feeling of apprehension. We heard it expressed by Under Secretary Mentz and by Secretary Baker. I know our chairman doesn't relish the prospect of looking again at tax reform. But there are some targeted things that, based on past experience, would seem beneficial.

For example, we lowered capital gains taxes back in the sixties. It was 49 percent as I recall, and we pushed it down to 40, then 28, and then down to 20. There were concerns at Treasury that this was going to cost them vast amounts of revenue when, in fact, it increased their revenues. In addition, it provided an explosion of venture capital for a lot of new businesses to get started. Now we are moving in the opposite direction. Treasury acknowledged that the \$21.8 billion they anticipated picking up over the next 5 years under that increase in capital gains rates, they have already picked up. It was to come between October 1 and December 31 of this past year, as people sold off to capitalize on a maximum 20-percent rate.

Now, I know this is something that we have been over before, but don't you think it would be worth reconsidering—lowering those capital gains taxes again? We have already got the windfall revenue from 1986, so those people who sold off, can't get money refunded to them. But, on the other hand, we have a potential for lowering taxes and increasing revenues. That would help in budgetary terms, and it also would help, I think, in increasing our competitive position.

Would you concur?

Mr. WRIGHT. Mr. Crane, your figures are probably much better than mine. And while I certainly could not quarrel with anything that you said, I guess I had better just try to confine myself today to those specific things that I have been recommending here.

I don't take issue with anything you have said. I know your committee has the responsibility, of course, of finding how to balance these things off, get revenues while, at the same time encouraging and stimulating and initiating new activity. And I should not suppose that I have any power just to sit here and tell you how to do it.

Mr. CRANE. One final question, Mr. Speaker. I know that you as well as many members on the committee, are interested in getting this trade legislation on a fast track and having it out before Easter, or at least sometime in April. However, I am curious as to whether you have given any kind of guidelines to the Budget Committee to get on a fast track parallel course just to conform to those guidelines of Gramm-Rudman?

Mr. WRIGHT. Absolutely. It was last week, I think, that I had lunch with people in our party who are on the committee, and encouraged them to complete their hearings and to stay on target and on schedule.

But the budget is going to be difficult this year, not alone because of the quicker time triggers that call for action 1 month sooner than the law called for last year. But, in addition to that, it is going to be very difficult because of the terrible budgetary situation we find ourselves confronting. We are going to have to find another \$61 billion either in reduced expenses or in additional revenues, or some combination of the two, under last year's levels if we are to achieve the mandated \$108 billion deficit.

I don't minimize their task.

Mr. CRANE. Thank you, Mr. Speaker.

Chairman ROSTENKOWSKI. Mr. Andrews will inquire.

Mr. ANDREWS. Thank you, Mr. Chairman.

Mr. Speaker, I would like to ask you to comment on one of the points you made in your opening remarks, which is an excellent one. The statistics you gave us show that the state of our Nation's educational system is a grim one. Surely, no matter what kind of trade legislation we enact as a Congress, if we do not have an educated work force, we are not going to be able to compete. And I wonder if you would give us your thoughts on what specific kinds of steps this Nation and this Congress can undertake in the years ahead to broaden our educational base so we can compete?

Mr. WRIGHT. There are a great many things that we need to be doing, and perhaps I should discuss those things with the Education and Labor Committee. But I encountered only today the chairman of our Veterans Affairs Committee, Mr. Montgomery. He tells me that their committee has under consideration a bill which would make permanent a GI bill of rights in peacetime.

I am of the persuasion that the GI bill of rights enacted toward the end of World War II probably was the very best investment this country ever made. I think it has been demonstrated that every dollar invested in that program, in the education of the generation of which I was a part, has repaid the Treasury in cold dollars and cents at least \$20, perhaps more. I am inclined to support a proposal that would make it possible for every young person, upon concluding a tour of service in the military of this country, to be able to go to a college for 4 years. That is our aim, and I think it is a good one.

In addition to that, we need to try to make sure that the job training programs are improved. There is a great dislocation going on at the present time, as you are aware. A lot of people in midcareer, 40 years of age, or about the time they are getting ready to send the kids to college, who are highly skilled and highly trained, suddenly discover that they just don't have their job any more because of a change in the market. Their job skill is no longer needed. And, all of a sudden, they either must confront joblessness and the inability to fulfill the goals they had in mind for their children, or else they have to get new training. They have to develop new skills.

I think we have the responsibility as a Nation—not only a humane responsibility to those American citizens, but a responsibility to our own national future—to have a systematic method of determining just what jobs will be available and will be needed, and just what categories of skill, and just what places, 6 months down the road from now. Surely we have the capacity to glean that

information from the volumes of reports that businesses have to make to the Commerce Department.

Maybe there ought to be a computerized job bank in the Department of Labor into which all of our employment service offices could plug. From it, they would discover that here are the kinds of jobs which, 6 months from now, and here are the kinds of jobs which, a year from now, are going to be needed in the marketplace. Here are the kinds of skills. And here are these people who have been surplused. Then they should call upon the facilities of our educational establishments, including the network of community colleges around our country, to provide targeted training so that these people can be ready 6 months from now to take those jobs.

Not all of that can be done in the trade bill, nor can all of that necessarily be done in an education bill alone. These are disciplinary approaches. Maybe some of that can be done in connection with our reform of the welfare program so that we make it more attractive for people to get training than just to receive welfare. And more attractive for people actually to take jobs, even though they might be low paying jobs in the initial instance, than to stay out of the work force.

Those are big problems. Each of them has people in the Congress who know more in depth about it than I know. And yet it seems to me that this is the direction in which we need to be moving. I don't think the Government owes everybody a living. But I think all of us here would agree that a country as rich as ours owes to the humblest citizen an opportunity to earn a living.

Mr. ANDREWS. Thank you, Mr. Speaker.

Chairman ROSTENKOWSKI. Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman. Just a very brief comment.

This committee has jurisdiction over trade adjustment, and so I think it has been appropriate to spend some time on education issues this afternoon.

Everybody is talking that way. The state of the Union documents referred to a billion dollar dislocation program and an \$800 million program creating opportunities for needy youth. The \$1 billion program has some new money in it, and it seems to have some reality. The Secretary referred to these two programs this morning. What he did not say was that the \$800 million program, AFDC youth program, is really the \$750 million in summer youth programs from the present year.

They eliminate that and rework it. So, as we proceed with this trade bill, hopefully training will be a major ingredient. There is no one in this institution who speaks more feelingly about education than you, and I hope that you will keep our, and more importantly, the administration's feet to the fire on training for dislocated people and those who have never had a crack at it.

Mr. WRIGHT. Thank you, Mr. Levin. I think all of us together can do that and can bring these dreams into reality.

Mr. LEVIN. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Moody.

Mr. MOODY. Mr. Speaker, I am very happy to have you here, and I salute your intellectual and organizational leadership in bringing the trade bill to the floor at a crucial period.

Earlier, you and Mr. Gregg discussed the deficit and the role of the deficit in the trade imbalance, and a short while ago, Secretary Baker sat in that exact same chair and confirmed his belief in that relationship. And he put forward a package of initiatives of the President to bring the trade deficit down, and chief among them was the budget deficit and the Gramm-Rudman targets.

But he also seriously defended, Mr. Speaker, the proposition that selling off Government assets would accomplish that. We had a mild disagreement because I argued that the main reason for reducing the budget deficit was to stop siphoning off so much private capital into Government paper because putting it into Government paper didn't create any new machinery to make us more competitive or creative or productive, it simply raised Government's future liabilities in the financial area.

It seems to me that selling off our paper assets or portfolios, or what have you, does exactly the same thing as selling bonds. It is getting some revenue right now. But it is also raising the revenue pressure on yourself next year and every year thereafter because those portfolios do have revenues associated in the outyears. Secretary Baker balked at that and didn't seem to agree that selling assets was tantamount to selling Government paper in the form of bonds. In fact, they both have precisely the same economic and financial impact.

Do you have any comment on that?

Mr. WRIGHT. Well, let's just put it this way. It is a little bit like a business selling off its machines and utilizing that long-term asset to defray current year's operating expenses and pretending that it was doing fine. They are not kidding anybody but themselves. It would be like a family that sold the family business, and they held the proceeds in the current year, and said we are not going into debt. Whom are they kidding? They are deceiving themselves. Of course.

It is not only a deceptive bookkeeping. It's self-deception in its worst form to pretend that we can have a garage sale of the public's assets—things that belong to the American people—and sell them off to private speculators at prices which the private speculators will find profitable for them or why else would they buy them. Obviously, if they buy them at those prices, that means that the Government is going to lose some money. And also it seems quite obvious that if you sell off assets that are going to produce revenues for all of us in future years, and gobble up all of that this year, and if we pretend that we are not creating a deficit, then we are deceiving the public. We are selling their birthright. And we are trying to kid them into thinking that we are not piling up deficits. Well, I just think that is intellectually dishonest, and I commend the gentleman from Wisconsin for having seen through it.

Mr. MOODY. Thank you.

Another point that I was very impressed that you made is about education. Mr. Baker suggested that we should basically "jawbone" the local communities into spending more than using the bully pulpit, as one of the other members mentioned. But it seems to me that with a mobile society, it is in the interest of every town and community to less than fully educate a child because 50 percent of those children will be going elsewhere, will earn their living in

other communities and will carry that investment with them. So local taxpayers will really not be benefited. So that the systematic bias is toward under-investment in our youth, if you put it strictly on a local basis. Whereas if you look at it nationally with a mobile society, assuming people stay within the same country, you would have to have Federal spending in order to achieve the right level of investment.

I appreciate any comments you may have.

Mr. WRIGHT. We can preach to other people and say you ought to do better by your children. We can preach to the various States and say you are not doing well enough. We can preach to people in the South Bronx and say you folks haven't done a good job. You ought to spend more money on educating your kids. Well, they haven't got any money. You understand I am sure. We preach to Mississippi and say you folks haven't got a high enough level of a per capita apportionment for your students and your schools. But the truth of it is that if Mississippi underinvests in education, just to use an example, not to make a pejorative reference to any one State, if it were Mississippi or whatever State that underinvested in education and produced a disproportionate share of young people who couldn't pay their own way in society, your children and my children are going to have to pay for that, aren't they? Sure they are.

And if in Texas, in my State, if we don't have a sufficient degree of commitment to educating our young people, then we may produce a lot of young folks who go out and get in trouble and commit crimes and get into prison. It costs more to send that young fellow to prison for a year than it would to send him to the most expensive university in America. And your children would have to pay for that, wouldn't they? So, of course, all of us have a stake in this. We are one country under God, indivisible, as we say. And it seems to me that to avoid the responsibility by lecturing to others in our society and saying you people ought to do better, is for Congress to shirk its greatest duty. That duty that is to protect the United States of America.

Mr. MOODY. Thank you.

Chairman ROSTENKOWSKI. Mr. Pickle.

Mr. PICKLE. Thank you, Mr. Chairman.

Mr. Speaker, I commend you for bringing this bill to us. It shows courage and it shows timeliness. The two most important problems facing this Nation are the trade deficit and our own budget deficit. They go hand in glove so we have got to address them.

My concern is how to get it through the legislation and on schedule. Last year we passed this bill out of this committee somewhat on a party basis, but not totally. Then, on the floor, we passed it by a 3 to 1 vote approximately. It was about 59 to 60 Republicans voting for the bill. Some of them were very strong leaders on the other side. So it passed the House essentially in a nonpartisan manner.

Now we have introduced H.R. 3 to follow H.R. 4800. I am advised that H.R. 3 is essentially the same bill we passed last year. So we don't need to replot or redo many parts of the bill because it is the same bill. And now we are pursuing that bill, and the big question

is can we add to it the provisions addressing competitiveness and pull them together and get this bill out on schedule?

Now, you have set the time schedule of April, just before Easter, and then out of the full committee by the end of April. The question is can we do it?

So my question to you is, why did you set this early date? Has the administration given you any assurance of their cooperation so that we can meet that date, or have they said they can't make it? Do you anticipate any changes by the other committees of concurrent jurisdiction? Or are you essentially trying to keep H.R. 3 together much like H.R. 4800 and let that be the bill to pass through the House?

I think that is the only problem we have. Can we come together on the time allowed? And I would like for you to tell us your views on that and why this early date and what do you anticipate, and what kind of cooperation have you requested and what have you been given as assurance?

Mr. WRIGHT. Mr. Pickle, there has been a high degree of bipartisan cooperation in making a commitment to put it on this realistic timetable, and to make our target dates.

Two weeks ago, the minority leader, Mr. Michel, and I called together the ranking minority members and the chairpeople of the seven committees of jurisdiction. We sat and talked about it and talked about these target dates and we accepted these target dates as realistic. I certainly expect that every committee will fulfill that obligation. We did last year. Last year, the same committees met the target dates, and that works behind us. We don't have nearly as much work to do as we had last year. And it would seem to me that the administration, having seen what we did last year, and having known that an enormous majority in the House, bipartisan majority, passed this legislation, has had an abundance of time to fashion any recommendations it desires to make. I know that the committee welcomes those recommendations. I welcome those recommendations. I am anxious to know what the administration may have by way of additional suggestions that might be incorporated into this legislation.

Mr. PICKLE. Well, this morning, Ambassador Yeutter indicated that he would like to have more time and though he didn't set any time specific nor did he make any suggestions about rolling it back, he indicated he wanted the courtesy of being heard.

I understand the administration will not submit their plans for a trade bill, that is specifics particularly as it pertains to competitiveness, until about 10 days from now. So time is running out on us, and I am hoping this committee will give him that courtesy because the administration should have it. And I think we are all in agreement, that we should have competitiveness in the bill.

I don't think though that necessarily delays consideration of the bill, and I hope that we can have their suggestions as quickly as possible, and then we can move forward together.

You think then that it can be achieved, and I would hope then that you appeal to the administration to submit their measures as quickly as possible so we will understand what they specifically want and what kind of hearing dates they would want.

Mr. WRIGHT. Mr. Pickle, that is the clear plan and intent of the leadership. We have set the dates. A couple of weeks ago, the day after we did it, I advised the President. The Secretary of Labor, the Secretary of the Treasury, and Ambassador Yeutter, our Trade Representative, were all present when I advised them of the dates. That was 2 weeks ago. And so they have been on notice. I fully expect that the administration will come forward with its recommendations, and this committee will have ample time to examine them. There is no reason I can imagine to delay further. God knows, Jake, we have had 4 years to come to grips with this problem.

By the time you report this bill out, it will have been almost a year since we passed it in the House last time. It will have been just about a year since the committee reported it out last year. I cannot imagine serving any public purpose by delaying it.

My stars, the problem is urgent. Every day of delay makes it worse. It isn't going to solve itself. I think that has been the forlorn wish of a good many people. Some of the administration, perhaps some in Congress, said that if we just waited long enough, the problem would solve itself. The trouble is that time is not on our side. The problem has not solved itself. It has grown steadily worse for each of the last 4 years until, as I said a moment ago, we who were the world's biggest creditor nation as recently as 1982 now have become the world's biggest debtor nation. I don't think we dare just sit back lackadaisically and take a leisurely schedule. This is serious business. This is not business as usual. And I do earnestly hope that the administration understands the urgency of it and is willing to work with us because surely we need all the cooperation we can get. While the administration cannot legislate and cannot appropriate, the Congress cannot negotiate under our Constitution. We both need one another.

Mr. Rayburn used to say you can write the finest law in the world, crafted in the best technicians prose to carry out the most idealistically conceived program. But then if you put it in the hands of people who are hostile to its purpose or indifferent to its purpose, you have got a bad law.

So we need the cooperation of the administration. And I just urge them to come forward and approach this thing with the same sense of urgency that we have in the Congress.

Mr. PICKLE. Mr. Speaker, I agree with you, but I urge the leadership to appeal to the administration to meet with us immediately so that we can iron out any differences and have the fullest cooperation on both sides.

Mr. WRIGHT. Mr. Pickle, upon your suggestion, we'll make that request to them.

Chairman ROSTENKOWSKI. Mr. Frenzel.

Mr. FRENZEL. Mr. Chairman, I would like to thank the Speaker for his testimony. We're always flattered to have any Speaker come here and delighted that you have made it so early in your career. I hope you come back often.

Mr. Chairman, I yield the balance of my time.

Chairman ROSTENKOWSKI. Thank you. Mr. Dorgan.

Mr. DORGAN. Thank you, Mr. Chairman. Mr. Speaker, this morning we talked about education with the Secretary of the Treasury

and the recommendations of this administration on education. I wanted to say that I sure agree with your assessment of the importance of education. In the intermediate and long term, it seems to me that investment in education is critical if we're going to remain competitive worldwide.

This administration, while it does talk an awfully good game on education, and it even asks the rhetorical question with education "If not us, who," then answers that question with its budget by saying "Not us." The Secretary today said there is no funding for education necessarily, and we expect the State and local governments to pick up the slack. The fact is in North Dakota, for example, we are in the middle of a deep and abiding recession and the question in North Dakota is not how much more are we going to commit to education. It's how do we find the ability to prevent massive cuts at the present time.

So I just wanted to say I think that's a very important area.

I wanted to mention one other thing. This town, in my judgment, has largely been leaderless on fiscal policy issues and on trade policy matters. We have seen for several years chanting and sloganeering as a substitute for careful, deliberate fiscal policy and trade policy. And in the process we have created a mountain of debt, trade deficits and fiscal policy deficits.

Your willingness to stand up and assume some leadership and to say, if necessary, when we need new revenue, "I'll ask for it, if that's what is necessary to solve the fiscal policy problem," I think is something you'll find a whole lot more support for than you might guess at first glance—from both sides of the political aisle. I and others in Congress are perfectly willing to support new revenue if that's what is necessary as one component of solving the fiscal policy problem.

If it's necessary to get tougher on trade issues, in a more aggressive way to address the trade policies, again I think you're going to find more Members of Congress than most people out there expect who are willing in this leadership vacuum to stand up and say "absolutely; we're not only willing, but we are anxious to walk with you and others who are willing to assume leadership in fiscal policy and trade policy matters." I just wanted to salute you for your leadership.

Mr. WRIGHT. Thank you very much, Mr. Dorgan.

Chairman ROSTENKOWSKI. Thank you very much, Mr. Speaker, for joining us this afternoon. As is your custom, you hit a couple of home runs.

Mr. WRIGHT. Thank you, Mr. Chairman.

Chairman ROSTENKOWSKI. Mr. Frenzel has requested that his statement be entered into the record and without objection it will be entered at this point.

[The statement follows:]

STATEMENT OF HON. BILL FRENZEL

Mr. Chairman: I cannot stay at this hearing to speak these words during my normal time allotment. Therefore I ask unanimous consent to place these following remarks into the hearing record:

Our two corporate witnesses today represent the best of that priceless American asset, the private sector.

Jim Robinson was willing to interrupt his very busy schedule as CEO of American Express to spend a working week in Uruguay as an advisor to Ambassador Yeutter

and Secretaries Baldrige and King. Using the status of his international reputation, he functioned as an extra "cabinet officer" in the U.S. team's private discussions with other contracting parties to the GATT. As an observer, I can testify personally as to his diligence and effectiveness.

Jim is no Johnny-come-lately in the business of trade counsel. He was also present in Geneva at the last ministerial in 1982 when the United States was stonewalled. Long before, and ever since, he has served as a faithful and thoughtful counsel to both the legislative and executive branches.

John Young has a similar record of public service. Most notably he chaired the President's Commission on Industrial competitiveness. He has regularly appeared before various committees of Congress, and has been a consistent spokesman for improvement in U.S. trade policy and trade law.

Both men do not come to us without self-interest. But their interests are well-known and documented, and those interests are broadly representative of their industrial sectors and American business in general. They have been willing to share their experience and wisdom with the executive and legislative branches on request, and in fact, have been first in line when the Congress solicits information from private sources.

The help they provide this committee is invaluable, and for the committee I thank them both. The committee may not follow every bit of their good advice, but we would not be doing a complete job of considering trade policy without their help.

Chairman ROSTENKOWSKI. Mr. Young and Mr. Robinson—I want to express my gratitude for your patience, gentlemen. I know, Mr. Young, you have to catch an airplane. I just hope we'll move along as quickly as expected.

Why don't you, for the record, Mr. Robinson, identify yourself and proceed with your testimony, and then Mr. Young will follow Mr. Robinson. This way we'll proceed.

STATEMENT OF JAMES D. ROBINSON III, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AMERICAN EXPRESS CO., AND CHAIRMAN, BUSINESS ROUNDTABLE TASK FORCE ON INTERNATIONAL TRADE AND INVESTMENT

Mr. ROBINSON. Thank you, Mr. Chairman.

I am Jim Robinson, chairman of American Express Co. I am here today on behalf of the Business Roundtable, as chairman of its trade and investment task force.

I am pleased to be able to participate in these hearings and have submitted a formal statement for the record.

You are addressing some fundamental and basic questions, questions like what type of world economy should we be striving for, and how can the United States earn its way in that economy.

These questions are similar to ones raised right after World War II. Our answer then was the creation of a multilateral system. We created the IMF and the World Bank. Interestingly, we also proposed the creation of the International Trade Organization, or ITO, as it was called.

Now, the ITO was intended to be a full-fledged, international organization, with detailed rules, mechanisms, and dispute settlement procedures, to govern international trade not just in goods but also in services and investments. Unfortunately, the ITO was killed by apathy from the business community, and congressional opposition, and we were left with a truncated version—the GATT.

Since that time a lot has changed. Europe has become a formidable economic rival. Japan has emerged as the second most powerful economy in the world. Korea, Taiwan, Singapore, Brazil, have become industrial powers overnight.

Now, the challenge is clear: how can the United States maintain its standard of living and remain competitive when it no longer the dominant world producer of many goods and services? Our Nation is, indeed, facing a set of complex and interrelated problems that significantly affect our competitive position in the world.

You know these problems very well. We have talked about them all day today: the enormous budget deficit, inadequate productivity in manufacturing and even in services, volatility in exchange rates, the Third World debt crisis—the problems are enormous. But I believe that there are some things that we can do about them, and let me list five.

No. 1, we need to fix the GATT, make it more like the ITO proposed after World War II.

No. 2, we need to negotiate a free trade agreement with Canada, and to do it this year.

No. 3, we need to focus more on our bilateral relationships, especially with Japan.

No. 4, we need trade legislation this year, and lastly, we need to be tougher at the negotiating table.

Now, what are our objectives? Well, I think the first should be to preserve and promote an open trading system, because like it or not, the growth of our U.S. economy depends importantly on expanding the total world business pie. And as long as the business pie can grow, trade need not be a zero sum game.

Second, we must conform GATT to today's trade and investment environment to make it relevant, and to give it the rules, the mechanisms, the staff, and the status, that will allow it to work.

Third, we have to defend our own interests if others won't play by the rules. We've got to be tougher at the negotiating table. I believe our USTR is now doing just that.

Fourth, we need to change with the times. The United States has always thrived on its ability to embrace new ideas, develop new technologies, to be entrepreneurial. We cannot perpetuate "buggy whip" industries. What is needed are realistic measures to help individuals and industries adjust.

Now, how do we achieve these objectives? Through the GATT negotiations, through bilateral trade agreements, and, when necessary, on our own.

First, the GATT. I was a U.S. delegate to the ministerial meeting in Punta del Este last September. So was Congressman Frenzel. The launching of the new trade round was a major step forward. I believe the United States has considerable leverage and support going into these negotiations and that we can reach agreements that are beneficial to all trading nations, including the United States.

Of course, the trade round cannot and should not be a substitute for an aggressive trade policy. But if the total trade business pie is to grow, we must have a multilateral framework, even if an imperfect one. A world without GATT would be worse than New York City without traffic lights. And as the Speaker just said, someone has to keep *laissez-faire* fair.

What is needed? First, dispute settlement procedures must be improved. Second, we must have a safeguards code that imposes discipline on the use of import relief and encourages adjustment. Third,

procedures must be set up to deal with new forms of subsidies and dumping practices. Finally, and of great importance, we need rules in new areas not covered by GATT, such as agriculture, services, investments and intellectual property.

Work is already underway in services. A major key to the success of the GATT talks is strong and continuing support from Congress and the private sector. The Business Roundtable supports the new round and its comprehensive agenda. It is time for Congress to go on record in support of the talks. The U.S. Trade Representative must be given clear objectives and flexible negotiating authority.

Now, what about bilateral negotiations. Here an immediate concern is United States-Canada free trade talks. As you know, the United States and Canada have the largest bilateral trade in the world—\$113 billion last year with a U.S. merchandise trade deficit of \$24 billion.

These negotiations are critical. A comprehensive agreement with the Canadians would create a powerful market-oriented free trade zone. We have to face the possibility that the EEC may tighten its ranks against the rest of the world and the GATT negotiations may not be successful. In such a world, the Canadian market would be even more important for the United States.

Now, if we are successful in Canada, we can use the Canadian agreement as a model in the GATT. If we fail with Canada, our largest trading partner and neighbor, how can we possibly expect to be successful in the GATT?

I am disturbed that the free trade talks have met with a big yawn in this country. This is wrong. We've got an incredible opportunity. The Canadian effort deserves great attention and high priority in the administration and Congress. The clock is ticking and we need a sense of urgency.

Now, that brings me to another bilateral relationship, Japan. In 1986, Japan ran an estimated \$60 billion trade surplus with the United States. Obviously, these numbers are very, very serious. In my own view, Japan has made a number of positive changes, although a great deal remains to be done. Since 1985, the yen has appreciated well over 40 percent against the dollar. Japan has taken steps to open a number of its markets, including its financial markets. Prime Minister Nakasone has endorsed a plan to make the Japanese economy less export-oriented over the long term.

I believe Japan has a responsibility to use its financial surplus to play a positive role in the global economy. Just as the United States carries the major burden for the military security of the world, Japan and other chronic trade surplus countries should shoulder major roles in supporting the world's economic stability.

George Marshall said it very well 40 years ago: "Without normal economic health in the world, there can be no political stability and no assured peace."

The administration, Congress, and USTR, should continue to encourage Japan and other surplus countries like Germany to open their own markets to exports, especially to those of the LDCs, and to stimulate their domestic economies. An equally important contribution would be to use their excess savings and surplus to encourage structural reform in the LDCs that could help open developing country markets to the benefit of all trading nations.

Comment was made this morning that our exports have been flat. One of the reasons they've been flat is because the LDCs have cut back substantially on their imports, most of which came from the United States, as a result IMF austerity programs.

Again, the bigger the business pie, the better for everybody.

Now, finally, I would like to comment on what we can do now on our own to attain our objectives. In summary, the Roundtable recommends that Congress pass legislation to authorize the new trade round, with fast track legislative procedures. Details are included in the Business Roundtable's report that was previously sent to you.

No. 2, transfer authority to take action under section 301 cases from the President to the U.S. Trade Representative, and strengthen section 301 to provide greater certainty in resolving cases.

No. 3, provide greater protection for intellectual property. We concur with your approach in H.R. 3.

No. 4, amend section 201 of the Trade Act, to place more emphasis on adjustment, broaden its scope, ease standards for obtaining relief during recessions, and ensure that firms that obtain affirmative decisions from the International Trade Commission be granted some form of relief.

No. 5, authorize U.S. participation in MIGA. In addition, the Roundtable recommends certain policy initiatives, including implementation of the export control policies adopted by Congress in 1985; continued cooperation with the G-7, G-5, G-2, on fiscal and monetary issues; No. 3, appropriate alignment of the dollar relative to other currencies, particularly the NIC's; and No. 4, resolution of the Third World debt crisis in a manner that promotes sustained growth in economic trade.

We are pleased that Congress is giving a high priority to trade issues. I understand the committee will be using H.R. 3 as the basis for formulating a final trade package. Many provisions of H.R. 3 are endorsed by the Roundtable. However, the Roundtable continues to be concerned with certain components, as it was with H.R. 4800 last year. We want to work with you to resolve these problems, so that we can support your efforts.

Our principal concerns with H.R. 3 are those that Ambassador Yeutter described this morning as GATT illegal, such as unilateral measures to deal with bilateral trade surpluses, and provisions to require automatic action against targeting practices, to name two. Remember, one of the things that was agreed to at GATT was a standstill. We have got to be careful not to throw that out of whack.

The Business Roundtable recognizes that legislation cannot solve all our trade problems, but it certainly is an important first step. We want very much to work actively with Congress and the administration towards a sensible trade bill.

Admittedly, these are complex issues, but if our predecessors could do it 40 years ago, certainly we can do it now.

Thanks for the opportunity to be with you.

[The prepared statement follows:]

Statement of
James D. Robinson III
Chairman and Chief Executive Officer,
American Express Company
and
Chairman,
The Business Roundtable
Task Force on International Trade and Investment

Mr. Chairman and members of the Committee I am pleased to participate in these hearings.

The United States is in the midst of an international trade crisis. We are now facing questions similar to ones we asked ourselves immediately after World War II: what type of world economy should we be striving for, and how can the United States earn its way in it?

At that time, we concluded that the answer was the establishment of a cooperative, multilateral framework for promoting growth -- the IMF, the World Bank and the GATT. Another institution was proposed at the time, the International Trade Organization. It would have set our rules much more extensive than those of the GATT. Unfortunately, it was never created, due to apathy on the part of the business community and opposition from Congress.

A lot has happened over the last forty years. The United States is no longer the sole dominant economy. Europe has developed into a formidable economic rival. Japan has emerged as the world's second largest economic power... and the number one foreign creditor nation. Korea, Taiwan, Singapore and Brazil have become industrial powers in their own right, competing not only in the very industries from which America once derived its economic strength, but also in the new technologies. Even India and China are now well on their way to establishing themselves as major players in the world economy.

The challenge is clear: how can the United States continue to maintain its standard of living at a time when other countries are demanding a greater share of the world pie? How can the United States remain competitive when it is no longer the dominant world producer of many goods and services? How can we expand the pie and avoid resorting to beggar-thy-neighbor policies?

The answers are not easy. Our nation is facing a set of complex and interrelated problems that affect our competitive position in the world economy:

- o We have an enormous budget deficit that discourages growth and investment at home. The Business Roundtable believes the deficit is the major cause of our trade problems.
- o In 1986 the U.S. became a net debtor nation with an external debt that could reach \$1 trillion by the early 1990's.
- o U.S. productivity in manufacturing is growing at rates slower than those of other developed nations. Between 1979 and 1985, U.S. manufacturing productivity grew at a rate of 3.1 percent, compared to 5.7 percent for Japan and 4.2 percent for the United Kingdom. President Reagan and many members of Congress have properly challenged our lack of competitiveness.
- o A strong dollar has made U.S. manufactured goods less competitive at home and abroad. Although it has depreciated sharply in relation to the yen and the German mark, the dollar remains excessively high vis-a-vis the currencies of many countries, particularly the newly industrialized ones.
- o The Third World debt crisis threatens our financial institutions. Austerity programs have forced debtor nations to limit their imports. Between 1981 and the end of 1986, U.S. exports to Third World debtor countries dropped 33 percent, while imports remained virtually unchanged.

- o More and more countries are erecting barriers to trade while seeking to expand their own export markets. The 1986 National Trade Estimate on Foreign Trade Barriers includes over 300 pages documenting foreign barriers to trade. Restrictions to trade are costly. In our own country, special protection cost American consumers roughly \$54 billion in 1984... more today.

These problems are enormous. But I think there are some things we can do about them. I will list five:

- o We need to fix GATT.
- o We need to negotiate a free trade agreement with Canada this year.
- o We need to focus more on our bilateral relationships, particularly with Japan.
- o We need trade legislation this year.
- o We need to be tough at the negotiating table.

What are our objectives? First, we want to preserve and promote an open trading system. Why? Like it or not, the growth of the U.S. economy depends importantly on expanding overseas markets. In business we call it growing the primary market; that is, expanding the total pie so we compete for bigger pieces of a bigger pie. World trade is a positive, not a zero sum game.

Second, we need to establish rules to make the open trading system work. The GATT can no longer be used just as a debating society. It must become more relevant and effective.

Third, we have to take care of ourselves. We have to defend our own interests if others won't play by the rules. We must be tougher at the negotiating table. Our U.S. Trade Representative is doing just that.

Fourth, we need to be flexible. The world is in a constant state of change. The United States has always thrived on its ability to embrace new ideas, develop new technologies and be entrepreneurial. We should encourage these traits. We cannot perpetuate buggy whip industries. At the same time, change brings disruption. We need realistic measures for helping individuals and industries adjust.

Those are some key objectives. How do we achieve them? We achieve them in the GATT negotiations, in bilateral trade agreements, and when necessary, on our own.

First, the GATT. The launching of the new trade round last September was a major step forward. I was a U.S. delegate to the GATT Ministerial meeting in Punta del Este. The U.S. achievements at that meeting were significant. We have considerable leverage and support going into these talks. I believe we can ultimately walk away from the table with agreements that are beneficial to all trading nations, including the United States.

Of course, there are skeptics. Some argue the talks will take too long or that our negotiators lack clear objectives. Others see the GATT as a device to stall or avoid action.

The trade round cannot and should not be a substitute for an aggressive trade policy. But if the total trade pie is to grow, we must have a multilateral framework. The GATT provides that framework, even if an imperfect one. A world without GATT would be worse than New York City without traffic lights.

The U.S. negotiating objectives are clear. Our primary goal should be to make the GATT work. Dispute settlement procedures must be improved. We need a safeguards code that imposes discipline on the use of import relief and encourages adjustment. Procedures for dealing with new forms of subsidies and dumping practices must be negotiated. Finally, we need rules for trade in areas not covered by the GATT including agriculture, services, intellectual property and investment.

Work is already under way. In services, for example, my company, along with other service companies, has been working with the Administration to develop specific goals for an umbrella agreement and for certain sectoral agreements... like telecommunications, tourism and insurance. Companies interested in intellectual property are also working closely with the Administration.

A major key to the success of the talks is strong, continued support from Congress and the private sector. The Business Roundtable, and a number of other major business organizations support the new round and its comprehensive agenda. It's time for the Administration to work more closely with Congress and the private sector on this effort. It's also time for Congress to throw its full support behind the talks. The U.S. Trade Representative must be given clear objectives and flexible negotiating authority.

What about bilateral negotiations? There is an immediate concern in the U.S. Canada free trade talks. The United States and Canada have the largest bilateral trade relationship in the world. Total trade between the countries was \$113.2 billion in 1986, with a significant U.S. trade deficit of \$23.6 billion. We share a unique geo-political and strategic relationship.

These negotiations are critical. A comprehensive agreement with the Canadians would create a powerful market-oriented free trade zone, rivaled only by the European Community. We have to face the possibility that the E.E.C. may close ranks against the rest of the world, and that the GATT negotiations may not succeed. In such a world, the Canadian market would be even more important for the U.S., and vice versa.

If we are successful in Canada, we can use the talks as a model for multilateral agreements in the GATT. An early and comprehensive agreement with Canada could encourage other countries to get down to brass tacks more quickly. If we fail with Canada, our largest trading partner and neighbor, how can we hope to get anywhere in the GATT?

I am disturbed that these free trade talks have not been receiving adequate interest and support in this country. We have an incredible opportunity before us and need to give this Canadian effort the attention it deserves.

That brings me to another bilateral relationship: Japan. In 1986 Japan ran an estimated \$60 billion trade surplus with the United States. I suspect it will get bigger before it gets smaller. Obviously these numbers are of serious concern. In my own view, Japan is making a number of positive changes -- though much remains to be done. Since 1985, the yen has appreciated 40 percent vis-a-vis the dollar. Japan has taken steps to open a number of its markets, including its financial markets. The Maekawa report, which Prime Minister Nakasone has endorsed, lays out a policy for making the Japanese economy less export oriented over the long term.

Japan has also begun to assume a greater share of its global responsibility by increasing its contribution to the World Bank, expanding its foreign aid budget, and injecting greater concessionality into its foreign aid programs.

Japan has a major responsibility to use its financial surplus to play a positive role in the global economy. On a personal note, I have been spending a good deal of time talking to Japanese leaders about the critical need for Japan to make a substantial commitment in this area. I believe that just as the United States carries the major burden for the military security of the world, Japan and other chronic trade surplus countries should shoulder major roles in supporting the world's economic security. As George Marshall said forty years ago: "Without normal economic health in the world, there can be no political stability and no assured peace."

The Japanese know they need access to world markets. The Administration, Congress and the U.S. Trade Representative should continue to encourage Japan and other surplus countries like Germany to open their markets to exports, including those of the LDCs. An even more important contribution the Japanese and Germans of the world could make would be to utilize their excess savings and surplus in ways that encourage structural reform in the LDCs. That in turn can lead to opening developing country markets to the benefit of all trading nations.

Finally, I'd like to comment on what we can do now, on our own, to attain our objectives in the trade arena. This gets to the question of legislation. While legislation alone will not solve our trade problems, it is a high priority. The Business Roundtable strongly supports the enactment of trade legislation. We have recently released a comprehensive statement with recommendations for action.

To summarize that statement, The Roundtable recommends that Congress pass legislation to:

1. Authorize the new trade round, with fast track legislative procedures.
2. Transfer authority to take action under Section 301 from the President to the U.S. Trade Representative, and strengthen Section 301 to provide greater certainty in resolution of unfair trade practices.
3. Provide greater protection for intellectual property by eliminating the injury requirement and the domestic industry test from Section 337 cases.
4. Amend Section 201 of the Trade Act to:
 - o place more emphasis on adjustment;
 - o broaden the scope of adjustment;
 - o ease standards for obtaining relief during recessions;
 - o ensure that firms that are successful in obtaining an affirmative decision from the International Trade Commission be granted some form of relief.
5. Authorize U.S. participation in the Multilateral Investment Guaranty Agency (MIGA).

The Roundtable also recommends certain policy initiatives be undertaken by the U.S. government including:

- o Implementation of the export control policies adopted by Congress in 1985 Amendments to the Export Administration Act.
- o Continued cooperation with the G-7 on fiscal and monetary issues.
- o Appropriate alignment of the dollar relative to the currencies of other countries, particularly the NICs.
- o Resolution of the Third World debt crisis in a manner that promotes sustained growth in trade.

The Roundtable is pleased that so many members of Congress believe trade to be such a high priority that the omnibus trade package was the third bill to be introduced in the 100th Congress. Our trade problems deserve that level of attention. If H.R. 1 and H.R. 2 are any indication, I think that we will see some action quickly on this front.

We will not resolve our trade problems overnight. The Roundtable appreciates the Committee's resolve to move expeditiously, but cautiously. I understand the Committee will use H.R. 3 as the basis for formulating a final trade package.

Many provisions of H.R. 3 have been endorsed by The Roundtable. However, we are concerned with certain components of the bill. It was primarily because of these provisions that The Roundtable opposed H.R. 4800 last year. We want to work with you to resolve these problems so that we can support your efforts this year.

The principal areas of concern include:

- o unilateral measures to deal with bilateral trade surpluses;
- o provisions to require action against targeting practices;
- o provisions permitting actions against exports of countries that violate "internationally agreed upon workers' rights;"
- o amendments to the antidumping law which would:
 - permit U.S. companies to be sued for damages in dumping cases and
 - allow diversionary dumping to be taken into account in determining the foreign market value of a product under investigation.

The Business Roundtable recognizes that these provisions are intended to deal with real problems. We are concerned, however, that as set forth in H.R. 3, they would undermine, rather than enhance U.S. international competitiveness.

Enactment of legislation will not solve all our trade problems, but it is an important first step. We want very much to be an active participant in working with Congress and the Administration towards a sensible trade bill. You have received a statement from The Roundtable that explains our recommendations in substantially more detail. We hope it will add value to the process.

In closing, I should say that now, more than ever, we need to think in global terms. Unilateral measures that undermine an open trading system -- regardless of how tempting -- must be resisted. Admittedly, the issues are complex. But if our forefathers could do it forty years ago, certainly we can do it again.

Thank you for the opportunity to be here. I am happy to answer any questions.

Chairman ROSTENKOWSKI. Thank you, Mr. Robinson. Mr. Young, please proceed with your testimony.

STATEMENT OF JOHN A. YOUNG, PRESIDENT AND CHIEF EXECUTIVE OFFICER, HEWLETT-PACKARD CO., AND CHAIRMAN, COUNCIL ON COMPETITIVENESS

Mr. YOUNG. I am John Young, president and chief executive officer of the Hewlett-Packard Co. Mr. Chairman, thank you for inviting me to join you this afternoon. I appreciate the chance to help articulate some of the challenges we face in crafting legislation to deal with the new realities of trade and international competition.

I have given a lot of thought to this subject in recent years, first as head of a major electronics firm that does about half of its business abroad, with a mix of both exports as well as foreign investments; second, as Chairman of the President's Commission on Industrial Competitiveness, which took an in-depth look at the ability of the U.S. industry to compete, both at home and abroad, and reported to the President just 2 years ago; and now as head of a new private sector group of leaders and Council on Competitiveness that we have formed to carry forward that work.

Let me begin by sharing an insight that I think captures the purpose of these hearings. You know, as I think about trade policy, it reminds me of a lot of people playing chess. They stand around, very absorbed in the game, watching each strategy move with great contemplation and interest. We get so caught up in this game that we fail to note that the game is taking place on the deck of the *Titanic* and the waters are rising rapidly around our chairs.

So in my comments I want to provide a broader view of some of the fundamental changes in the world economy, in our own, and in the way public policy choices shape the competitive environment.

Let me share first of all, then, some conclusions that I reached on this subject. First, trade is only part of a much broader set of issues that affect this Nation's ability to compete in world markets. I lump these under the heading of competitiveness—we're hearing a lot about that in the 100th Congress—but let me just define it as we did in our presidential commission.

For any nation, competitiveness means the degree to which we can, under open and fair market conditions, produce goods and services that succeed in international markets while at the same time maintaining or increasing the real income of our citizens.

There are many indications of a decline in this country's ability to compete in world markets. Our real wages since 1973 are down about 5 or 6 percent; our productivity growth rate is surpassed by almost all of our trading partners; we've got declining rates of return on assets employed in our vital manufacturing sector, lower than passbook savings accounts over the last few years; we have the loss of world market share in high-technology sectors; and a growing merchandise trade deficit.

I think it's worth noting that our trade deficits started in the early 1970's, when the dollar was widely thought to be undervalued. We just have no longer the unquestioned or unchallenged economic predominance. Exchange rates have exacerbated, and therefore obscured, the weakening of our competitive position.

Now, if you accept my definition that competitiveness means the ability to earn a rising standard of living for our people, then you will agree that being competitive is what allows us to attain our other national goals: jobs for our people, the social services, and a strong national security. So I've said that our trade deficit is one symptom of a weakening of our competitive position, vis-a-vis our trading partners, an erosion that threatens our ability to attain other national goals.

Trade policy is also one of several factors that determine our competitive position. I have attached a chart in your handout that I think helps illustrate that point.

This schematic was developed by—it's on the rear of your attachment if you're looking at it—developed by the Commission on Industrial Competitiveness. I think it puts in a very simple way the factors that determine our competitive posture and what we might expect to attain in the way of improvements.

You will note that there are four basic areas where Government plays the lead role: exchange rates and capital costs, which are affected by fiscal and monetary policy; and then U.S. trade policy and international trade policy. These are the public policy areas that create the environment within which American business competes.

So trade policy is only part of the problem Government needs to address, and it is only part of the solution. We can't solve our competitive problems by fixing trade policy. However, there are many areas of needed improvement in trade policy and I have attached to this testimony a summary of our company's views on what initiatives are required.

As this schematic shows, even if we could achieve all of these things, the best we could achieve—in terms of competitiveness—would be parity with our trading partners. Open and fair world markets are essential, but they are only a necessary first step. The don't make us competitive or guarantee any narrowing of our trade gap.

But parity is something we must reach, and that necessity brings me to my second conclusion: While trade has grown dramatically in both volume and complexity, the portion that is covered by the agreed-upon rules of GATT has actually declined.

Despite a seven-fold increase in the dollar volume of trade in the last decade-and-a-half, and despite the fact that imports and exports now comprise more than one-fifth of U.S. manufacturing output and fully 70 percent of our manufactured goods are fully exposed to international competition; and despite several rounds of talks to expand and strengthen the GATT, today only 15 percent of trade restrictions are covered by any agreed-upon rules.

In 1950, fully 40 percent of such barriers were covered. But the simple, post-World War II challenge of reducing high tariffs has given way to a whole new set of problems, such as newly industrializing nations that never really bought into the GATT; the changing nature of traded values, such as intangibles like intellectual property and services; subtle nontariff barriers such as regulations, standards, and investment limitations; and new national strategies that are aimed at creating a comparative advantage in key industrial sectors.

Now, we can respond to some of these changes by increasing membership in GATT, by expanding its coverage to include such items as intellectual property and services, and by providing it with the ability to exercise multilateral pressure on trade offenders. It is vital that the U.S. take a leadership role in the new round of GATT talks that will address these issues.

Yet, having done all that, we're not finished. Some of the trade-distorting practices used to create sectoral comparative advantage are so subtle and so deeply enmeshed in national policies that it's unlikely that we can ever devise rules that would be sufficiently rigorous and flexible to regulate these activities.

For such cases, we may have to look at trade flow out comes to ascertain whether steps should be taken to bring things more in balance. And creating balance is the key. Significant imbalances threaten the health of the world trading system.

This discussion of different national strategies brings me to my third conclusion—trade flows are tightly linked to financial flows. Of course, this has always been the case, but that linkage today is tighter than ever, for two reasons: first, the post-World War II era of unquestioned U.S. economic predominance has vanished. The competition is global and strong. Technology spreads quickly around the world. Product life cycles have shortened, and production facilities are highly mobile.

Because the competition is more balanced, we don't have that cushion or decoupling we used to enjoy. Factors such as exchange rates and capital costs have a much greater impact than they used to. When we had a significant cost advantage or a unique technology, such things didn't matter so much. Today they do.

Second, the sheer volume of world financial flows is perhaps 50 times greater than trade flows. Rather than responding to trade flows, as in classic theory, exchange rates instead have shaped trade flows.

Modern communications technology has created a supranational world monetary system. In recent remarks to the Business Council, Walter Wriston, a recently retired chairman of Citicorp, described today's reality:

One-hundred thousand unblinking terminals in the trading rooms of dozens of countries, operating 24 hours a day, transmitting information and buying decisions in a matter of seconds.

The President of the New York Fed estimates that on an average day about \$1 trillion changes hands. That's the equivalent of the entire GNP of the United States changing hands two or three times a week. Add to that volume the transactions in London, Chicago, or Tokyo.

So the new international instantaneous monetary system, concludes Wriston, leave us "with no place on this planet to hide." And it has enormous implications for the way we manage our own fiscal and monetary affairs. We are inextricably linked to our trading partners. Our policy decisions affect the entire world economy.

It is worth remembering that as recently as 1981 the United States had a current account surplus. But our budget deficit created a vacuum that literally sucked in capital and imports from around the world. We created for ourselves a comparative disadvantage.

Taiwan, just to give an example, on the other hand has created itself a trade advantage by keeping its currency too low by any reasonable measure, and as a result has a trade surplus with about every nation in the world.

Now, if a company sold its goods at below its domestic market prices, that would be considered dumping, and there would be a remedy under GATT. But if a nation as a whole does essentially the same thing by manipulating exchange rates, there is no recourse.

So fiscal and monetary policies, and the capital costs and exchange rates that stem from them, matter very much.

We can't remedy our trade imbalance without addressing these fundamentals. It's becoming increasingly clear that we need some kind of multilateral adjustment mechanism to avoid the imbalances we've experienced in recent years.

That brings me to my fourth and final conclusion: The process of reconciling fiscal, monetary and trade policy on a multilateral basis needs our focused attention.

There is no Adam Smith with an invisible hand out there that makes trade flows all balance out smoothly. If trade were only bilateral, imbalances would correct themselves rather quickly. You stop buying my wool, so I can no longer buy your wine.

But in today's very complex, multilateral trading environment, such self-correction happens very slowly. Balance will be achieved in the long term, but the duration of the imbalance can be longer than the ability of individual firms to withstand their effects. In the meantime, firms may lose market share and a business that they can never regain, or simply go out of business. And, of course, the human costs are tremendous.

As a recent, very fine study on trade done by Morgan Guaranty Trust Co. put it, "Unfortunately, the economists' time lag can turn into the politicians' nightmare."

Mr. Chairman, Members of the House, you are not the only ones with challenges to address. So far I have talked only about the determinants of competitiveness where government plays the only role—trade, fiscal and monetary policy. Public policies in science, technology and education also form part of the environment in which business operates.

But I would be remiss if I didn't publicly recognize the private sector has a real responsibility to be competitive. We have the prime responsibility for creating and applying technology, forging a committed work force, and managing it effectively. We are responsible for the farsightedness of our strategies and the attractiveness of the products we bring to market, and we accept that responsibility.

But let me say this: If we had a current account surplus as recently as 1981, it seems inappropriate to lay today's deficit at the doorstep of American management.

In that short period, business leaders did not suddenly lose their vision and drive. They have not made a mass exodus for the golf course. The environment has changed dramatically, and government created this environment. We have managed the mix of trade, fiscal and monetary policies in such a way as to create competitive disadvantages for American firms.

The challenge before you, then, is to articulate a world view that includes all of these policy factors to determine what can and cannot be accomplished through trade policy, and then to be sure that appropriate initiatives are undertaken to address these other factors that determine our performance.

It will be a formidable task. You will undoubtedly hear many narrow but seemingly worthy proposals that could actually be anti-competitive when viewed from the perspective of the broad forces that are at work. The challenge will be to avoid getting caught up in the maneuvers of the chess game, while high waters swirl over the deck. I know you are trying to do just that.

Thank you for your willingness to survey the breadth and depth of the ocean before charting a new course on trade.

[Attachments to the prepared statement follow:]

Competitive Profile, U.S. Leverage Points

○ Current ● Potential

	Disadvantage		Parity		Advantage	
	Major	Minor	Major	Minor	Major	Minor
Product Technology					○	●
Process Technology				○	○	●
Capital Cost	○			●		
Exchange Rate	○	●				
Human Resource Cost	○					
Human Resource Quality					○	●
U.S. Trade Policy			○	●		
International Trade Laws			○	●		

A SUMMARY OF
HEWLETT-PACKARD COMPANY'S
VIEWS ON U.S. TRADE POLICY

Since 1970 the overall U.S. trade balance has deteriorated, and many of America's most competitive industries have suffered. This has led to increased calls for protection against imports. Hewlett-Packard and many other U.S. high technology firms are convinced that expanding international trade and access to the largest possible world market is critical to sustained technological advancement. We are concerned that many of the protectionist proposals being advocated may not be in the long-term national interest and would be especially damaging to U.S. high technology companies. U.S. legislation designed solely to restrict or unduly burden imports is likely to lead to foreign retaliation and reduced access abroad for competitive U.S. high technology firms. It would also reduce the need for U.S. firms to compete and thus, rather than leadership, our industries would be committed to a position of inferiority.

It was in this context that late in 1985 the Hewlett-Packard Company identified and subsequently prepared a paper describing the important trade barriers that it and other U.S. high tech firms face abroad. This effort led to the development in the Spring of 1986 of a Hewlett-Packard statement on U.S. trade policy which outlined some actions that the U.S. government might take to increase access to foreign markets for U.S. firms. Following is a summary of the major conclusions of both documents.

Findings of the Trade Barrier Study

The Hewlett-Packard Trade Barrier Study, conducted during the final months of 1985, found that U.S. high technology exports and investments are being denied access to foreign markets, and intellectual property rights are inadequately protected. For example:

1. Notwithstanding the GATT Code on Government Procurement, national procurement policies, remain major non-tariff barriers.
2. Limitations on direct foreign investment such as ownership requirements, foreign exchange restrictions, import controls, and performance requirements, inhibit the efficient allocation of resources and cause significant trade distortions.
3. Inadequate protection of intellectual property abroad is undermining the innovative vitality of U.S. high technology firms.
4. Tariffs remain a significant barrier to trade in certain high technology products.
5. Barriers to high technology services, such as limiting access to foreign data bases and restrictions on computer networking, are increasing.

6. Trade flows are being distorted through market access restrictions, direct and indirect subsidies, the formation of cartels, "targeting", and other governmental actions.

In addition to these barriers created by other governments, U.S. export controls were among the most objectionable and most often cited barriers. U.S. unilateral controls, both export and reexport, and extensive licensing delays are perceived abroad as creating major impediments to doing business with U.S. suppliers.

Administration of U.S. Trade Rights and Laws

The first step towards reducing these barriers is for the U.S. government to consistently and aggressively defend U.S. trading rights under the GATT, other multilateral or bilateral agreements, and U.S. law. When international trade agreements are violated, individual American companies may be unfairly injured unless the U.S. government is prepared to defend their rights. Moreover, if one country's violations are tolerated, others may adopt similar practices. High technology companies, with their strong reliance on an open international trading system and the short lifespan of their products, are especially vulnerable.

Within the past couple of years the Administration has become much more aggressive on trade issues. While this is to be welcomed, it is important to understand that long term benefits can only be realized if our trading partners perceive that there has been a permanent shift in policy, not a short-term attempt to relieve political pressures. A new constancy of effort, signaling that trade policy is and will remain a priority of the U.S. government, is vital as the GATT's historic focus on tariffs shifts to more subtle but often very effective non-tariff barriers and as the United States moves from a past where it was the dominant economy to a future where it will be but one strong economy among several.

In carrying out a more aggressive trade policy, the United States should rely primarily on negotiations, consultations, and dispute-settlement procedures within the framework of the GATT and other appropriate multilateral institutions. However, these procedures do not result in the reduction or elimination of unfair trade and investment barriers, the United States should not hesitate to employ bilateral measures or to take unilateral or retaliatory action.

A U.S. High Technology Agenda for the GATT Round

The full use of existing multilateral trade mechanisms, while important, is not enough. The Congress should pass trade legislation that would permit the Administration to fully engage in the new round of GATT negotiations. Among the major objectives of such a round should be steps to:

1. Improve market access

a. The GATT Government Procurement Code must be strengthened by closing loopholes (such as the "emergency" procedures used extensively by France), increasing coverage, and encouraging more countries to become signatories, especially Australia, New Zealand, and the newly industrialized nations.

b. The reduction of tariffs, important barriers in some markets, should be a priority.

c. The U.S. should seek clarification of the GATT definition of "infant industries", the type and duration of protectionist devices, and when, and the degree to which, compensation may be awarded to adversely affected trading partners.

2. Expand GATT coverage for services

a. The protection of intellectual property, the lifeblood of high technology companies, must be addressed.

b. International ground rules should be established to prohibit the imposition of barriers on telecommunications services, especially the ability to transmit data freely across national borders, to establish computer networks, and access foreign databases.

c. An international agreement is needed to define legitimate requests for performance requirements such as local R&D, minimum local content, mandatory levels of exports, etc. which many countries impose as conditions for continued or increased access to their markets regardless of the economic viability of such investments.

3. Revise the GATT antidumping code

The GATT antidumping code should be revised to penalize repeat offenders more heavily and to impose dumping duties retroactively for the entire duration of the violation.

4. Expand GATT membership and commitment

The United States and others members of GATT should strengthen the structure of GATT in three interrelated ways:

a. Expand GATT membership by creating measurable benefits for adherence to the GATT and costs for non-compliance.

b. Expand the commitment of all members to GATT principles and codes.

- c. Develop effective and binding mechanisms less subject to political pressures to speedily resolve disputes.

Export Controls

The U.S. export control system must be improved to assure that U.S. companies are perceived as accessible and reliable suppliers and customers are not driven to foreign competitors. Although administrative solutions are possible for virtually all the problems, Congressional interest and action may be necessary to stimulate the Executive Branch to:

1. Narrow the list of products and technologies that require control to involve only exports that could provide critical military capabilities to potential adversaries.
2. Assure that the control system does not needlessly restrict U.S. exports of products or technologies that are available to potential customers in friendly countries from non-U.S. sources.
3. Radically reduce the scope of unilaterally imposed U.S. reexport controls.
4. Significantly reduce and simplify the overly voluminous and complex U.S. export control regulations.
5. Allocate adequate financial and human resources within the U.S. Government to assure acceleration of the licensing process.

U.S. Trade Laws

Although not central to Hewlett-Packard's international trade experience to date, U.S. trade laws could benefit from several structural changes. For example:

1. Section 301 of the Trade Act of 1974 should be strengthened to:
 - a. Enhance the ability of the U.S. Trade Representative by giving him the authority to initiate and administer investigations. This would remove the present need to obtain inter-agency clearances at nearly every step of the process. The President, with the advice of the other federal agencies, should retain final authority for what action, if any, should be taken in response to the USTR's findings.
 - b. Retaliation should be mandatory whenever an international agreement has been violated, the U.S. position upheld, and negotiations have been unsuccessful. In cases where no international agreement exists, discretionary authority to retaliate should be retained.

c. Time limits mandating retaliation are not advisable. The administration must be able to continue talks as needed, especially when the foreign practice is complex or requires extensive negotiations.

2. Section 337, permitting the prohibition of imports that infringe U.S. patents, copyrights or trademarks, is difficult to enforce in a timely manner because of the amount of damage which must be done before enforcement action can be started. Section 337 could be improved eliminating the current requirement that a domestic industry show injury before becoming eligible for relief.

3. Changes in the U.S. antidumping law are needed to make it an effective deterrent against repetitive dumping and to enable it to help repair the damage done the U.S. parties injured by dumping:

a. Repeat offenders should be subject to dumping duties for the entire period of the violation, instead of only after a preliminary determination.

b. If a company is found guilty of dumping three times in the same product area within a five year period, the U.S. government should be required to monitor imports from the offending company and self-initiate dumping investigations as warranted.

c. Dumping duties should be placed in an impress fund and the USTR should establish a mechanism to assure their use in reestablishing the injured industry's competitiveness and/or to provide worker adjustment assistance.

d. Congress should require the Administration to seek whatever appropriate changes in the GATT's antidumping code may be required to accomodate these objectives and to deter repeat offenders.

Chairman ROSTENKOWSKI. Thank you very much, Mr. Robinson and Mr. Young.

I guess what concerns me most is, as we have discussed earlier, the process. It was pointed out here several days ago that we in Congress have our authorities, our so-called areas of jurisdiction; and that there is a keen competition that exists within the framework of Congress in the committee structure.

I am concerned with whether or not there is that keen competitiveness within the administration's structure, as opposed to having one central office that could make trade policy. In my opinion, I see our trading partners take advantage of us in this area, because if you have a grievance, you work to a certain plateau, and then it is another administrative policy that has to be encountered.

Could you share with me, in the business community, any problems that you have experienced, or whether or not my observations are fair?

Mr. YOUNG. Well, let me just respond first. Our Presidential Commission in fact recommended the formation of a Cabinet-level Office of Trade that would bring together the various forces that you have described.

The President, 2 years ago in his State of the Union Message, agreed to look at such a proposal, but after a few weeks of consideration, I think that the estimate of the political capital involved in trying to create such an office discouraged them from taking it on at that time.

Chairman ROSTENKOWSKI. Mr. Young, was it creating another office, or was it putting under the umbrella of another—

Mr. YOUNG. It would have been the unification of USTR, the Commerce Department, enforcement things, and so forth—to give it the kind of stature that Defense and State enjoy. I think very much part of the problem, as you describe it that we are quite willing historically to trade away our trade positions for other geopolitical interests.

That maybe was fine in the years when we were so preeminent, but in the current situation, I think that has to change. We need to find mechanisms by which we can do that. I believe the formation of the economic policy council under Secretary Baker, which was the response to not forming that Cabinet-level office pulling things together, has indeed been an effective mechanism. The trade strike force and other issues that have come from that have been important. It also gives a way of integrating the financial and trade issues, which really cannot be separated.

So some good things have happened; whether they are the best organization or not, I am not so sure. But it is certainly better than it was two years ago.

Chairman ROSTENKOWSKI. Jim?

Mr. ROBINSON. Mr. Chairman, I think your observations are correct, that the process itself is overly complex because of the variety of levels of authority.

One thing that I think that those of us in the business community who spent time with trade matters have pointed out in the past is that the USTR is the best we have got. It is a dedicated, high-quality SWAT team. We have to be careful not to merge it into some-

thing that is much larger, where it may lose some effectiveness. We cannot give up the one good thing we have.

But I would recommend, maybe not within the timeframe in which you are considering this particular legislation, that we give some consideration to that. Right now I do believe that USTR is working well in the administration because of the personalities. They work together, and they're mission-oriented. That made a difference at Punta.

Chairman ROSTENKOWSKI. Thank you. Mr. Duncan?

Mr. DUNCAN. Thank you, Mr. Chairman.

I would also like to thank the witnesses.

You indicated that perhaps we should expand the GATT that covers services and intellectual property. We have been hearing that for years. Do you think we are any closer today, or how soon could that happen?

Mr. ROBINSON. They are no question we are closer today. Let me speak first-hand. Having been at the GATT meeting in 1982, I felt like a poor orphan, representing the service sector. Most of the delegates wondered what we were doing and why we were taking up time.

Clearly that has changed dramatically. It has changed because of the broader recognition within this country and Congress of the significant share of GNP and share of jobs that the service sector delivers. The same is true in many countries around the world, certainly the industrial countries.

So this time, in Punta del Este, services were very high priority. The great majority of countries very much wanted them included under GATT, to design their own framework, their own protocol, if you will, of rules that are relevant to services.

There were 10 countries, Brazil and India being the two leaders, that resisted including services. That essentially led us to a compromise that technically makes a difference, I suppose, but in fact does not.

Services are now on the GATT agenda to be negotiated. Agreements are to be brought back to the table for final resolution at the same time that all the other major items are.

Mr. DUNCAN. What about intellectual property?

Mr. YOUNG. The same thing with intellectual property.

Actually, the USTR has done a good job in jawboning intellectual property rights, particularly in the areas of software that I am familiar with.

You all know that if you have ever traveled to Hong Kong, for example, you can buy any of the PC software for about a dollar, including the floppy disk. I think we just have not got countries like that to recognize that so much of the future value and the property rights associated with that are so important.

As I say, the USTR has done an excellent job of turning that around and getting government commitments to pass laws even quite apart from this negotiation.

Mr. DUNCAN. Robert Strauss, the former Special Trade Representative, has suggested a United States-Japanese trade summit this year. Do you think that could be helpful?

Mr. ROBINSON. I think the more dialog we have, the better. Certainly, that would be an important place to start. In my view, the

United States can no longer afford to be the economic engine of the world. The Japanese have the resources to join in.

If that link were established in an important way, I think it could be used to get other chronic trade surplus countries to participate also.

Mr. DUNCAN. Do you agree, Mr. Young?

Mr. YOUNG. I do, indeed.

Mr. DUNCAN. I yield back the balance of my time.

Thank you, gentlemen.

Chairman ROSTENKOWSKI. Mr. Rangel will inquire.

Mr. RANGEL. Thank you, Mr. Chairman.

Mr. Young, the council that you chaired on competitiveness, was that basically manufacturing industries?

Mr. YOUNG. Yes, industrial competitiveness was its title.

Mr. RANGEL. And as an expert in this area, do you believe that American workers can be competitive inasmuch as your firm operates abroad and here?

Mr. YOUNG. I certainly do at some exchange rate. I do not think we can manufacture things here and compete in the world markets if you have an exchange rate that is, let us say, 50-percent different than some purchasing power parity, which—

Mr. RANGEL. But in terms of acquiring the skills, you do not believe that American workers cannot obtain the skills in order to be competitive?

Mr. YOUNG. Absolutely not.

Mr. RANGEL. In your statement, you indicate that once we prove to be competitive, that this would create jobs, and therefore can provide the social services that will be financed by taxes.

This is a problem that we are having as to whether or not there is a responsibility for the Federal Government, through taxes, to be of assistance to local, State, and private sector efforts to make our workers more skilled or more effective.

When you list the four basic areas where Government can play the lead role, again—talking about our ability to be competitive, you leave that out completely. So did the administration.

Do you believe the Government has any role or any responsibility to assist our people in school to be able to acquire the skills so that they can be competitive?

Mr. YOUNG. I do not think I omitted mention of that. I believe I showed on this chart, first of all, that human resource quality was one of the great assets of our country, and one that we need to encourage.

I also said that education was a shared agenda between the public and the private sector. I suspect that the single most important thing we do is not manufacture the products we make. It is train the people.

During my working career—that is a little over 25 years—our company has gone through four complete basic technology changes. We have never had a layoff in the history of our company. Recycling people, training with outside universities, community colleges, satellite-delivered television courses, in-house training are some of the things we do.

Mr. RANGEL. What happens before they get to you? Some of our kids cannot even fill out the application forms. It seems as though

you have done a tremendous job in retraining in order to keep up with technology.

But did your council come up with any piece that Government can share in to make certain that our kids are able to get involved with firms such as the ones that you had, so that if technology changes, they can rely on the private sector to keep up? So many millions of people are just left out of the system.

Mr. YOUNG. You are right, Congressman. When we completed our report 2 years ago, the Gardner Commission had just completed its report on the educational problems. We felt that was one area, with respect to at least basic education, that we did not need to replough.

I think that report was very thorough and excellent.

Mr. RANGEL. What do you think we should be doing in this legislation? Should we deal with it at all, or should we leave it to local and state governments? Or will the private sector handle this problem, or what?

Mr. YOUNG. The problem is a pretty broad-form one. I think the idea of retraining displaced workers, and all of that kind of thing—I think the proposals are excellent. Whether you should append into the trade bill something about primary education or not, I frankly question that. It might get so complex, and so many other issues involved, that I think it might just slow down your agenda. It might be better addressed in a separate set of issues.

Mr. RANGEL. Mr. Robinson?

Mr. ROBINSON. Mr. Rangel, I think it is an all-hands effort. I am not sure how to deal with the masses. But maybe as a private company or a member of the private sector, we have to do what we are able to do. We found in New York City, for instance, that we were not getting a quality of high school graduates that could even read and write.

We at American Express, with Shearson-Lehman, set up something called an academy of finance. We went to the high schools and worked with the local school system, and created supplementary programs to the regular school system, to train kids to come to work for us.

There is only one problem. We were so successful that all of them have gone on to college; 90 percent of them, when we first set this thing up, were not even going to college, 100 percent went.

So we have had to wait a little longer, but we are standing there with a job guarantee for them, as well as helping to improve the quality of our own resources. So that is one of the things we are doing. We have exported it.

As chairman of New York City Partnership, next week I go to Albany to lobby on behalf of increasing the State commitment from the \$400-plus million in the budget to \$600 million plus for New York City's share.

So it is an all-hands effort. I do not know the nature of how the Federal Government can best add its strong hand, but clearly it is a high priority.

Mr. RANGEL. I am familiar with the American Express program. It is a tremendous success, and I do wish that perhaps Mr. Young and you can see what role, if any, Federal Government should play, because what you are doing—you are setting up rules for us

to be competitive, but you are really leaving out a large segment of our population that won't be able to pay those taxes for other people to get the social services.

Mr. YOUNG. You're right, Mr. Rangel. Being a resident of California, I have watched with great interest—we have heard a lot of comments as I have been sitting in the audience about spending the more money, or Federal financial support for education.

I think, myself, as we have seen in California with a new initiative to improve our education, that changing the expectations about what is required, and the amount of work the youngsters should put in, and the discipline, and all these things, are far more important than more money.

We have seen, I think, a dramatic improvement in the State of California with modest changes in funding.

Chairman ROSTENKOWSKI. Mr. Stark.

Mr. STARK. I have no questions.

Chairman ROSTENKOWSKI. Mr. Jenkins.

Mr. JENKINS. Mr. Chairman, I want to say to the panel that I apologize for not being here during the oral presentation. I was in another committee. But I appreciate your appearance before the committee, and I shall read your written presentations. Where are you from, Mr. Robinson?

Mr. ROBINSON. From Georgia.

Mr. JENKINS. That is what I thought.

Mr. ROBINSON. We did not rehearse this.

Mr. RANGEL. I thought you were from New York.

Mr. JENKINS. He has overcome that.

Chairman ROSTENKOWSKI. Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

I also would like to thank Mr. Young and Mr. Robinson for their testimony today. I just have one question.

Assuming we make some progress on our budget deficit that is sufficient to calm the financial markets down. But at the same time, if Japan and West Germany do not increase consumption in their respective economies, are we then in an position to reduce the trade deficit?

Mr. ROBINSON. We cannot do it unilaterally. In dealing with those two countries, hopefully the G-2, G-5, G-7 effort can convince them—and I believe that a great deal of progress has been made—that we all need access to growing world markets, and that they have as much at stake in this as we do; and that we will have to be tough at the negotiating table on a bilateral basis, while at the same time encouraging them to play a more significant roles, especially in trying to bring the LDC's back to the marketplace, so that those large markets can be opened up again.

Mr. MATSUI. Mr. Chairman, I would like to just ask two very brief questions. Do either of you have any thoughts about Senator Bradley's Third World debt proposal?

Mr. ROBINSON. I think, as the Secretary mentioned this morning, that anything that is legislative that forces a writeoff will make it very difficult for the banking community, particularly under existing accounting laws, to put more money in to provide for financing growth.

So that I hope the Senator takes his plan in the direction of looking for ways to create options. For instance, debt-equity kind of swaps, in and of themselves, cannot do it. As part of a total mosaic, they can be a very important part.

If an institution thinks that they have got a choice, to make a debt-equity swap, or to sell in a secondary market because a secondary market does grow, and that is happening now, then you can begin the momentum. Certainly, that is the direction I would go.

But certainly the Senator is a very well-read and very knowledgeable person. I applaud his efforts.

But to date, on that particular provision, I think it would be counterproductive.

Mr. MATSUI. Mr. Young, could you comment on the importance of the research and development tax credit that was enacted in 1981? Is it helpful?

Mr. YOUNG. As I commented on this little handout, you can see that technology is probably the single greatest advantage we have as a nation to advance our technology and to develop a competitive posture in world markets.

The R&D tax credit that was installed in 1981 was reviewed at some depth by our Commission on Industrial Competitiveness. We had occasion to review its impact further as part of the considerations of the new tax bill.

I am personally thoroughly persuaded that it is very sound public policy. R&D is conducted by companies that have what the economists would call externalities, that is, it has a spillover that companies cannot capture. It is really good public policy to stimulate that kind of R&D and recognize that many others can benefit.

So I think it is one of those kinds of incentives that is not a typical tax expenditure, as it is called, but rather it is the same kind of investment that we might make through the National Science Foundation in improving the productivity and the underpinnings of the economy.

I think we have seen from studies that it has accelerated the expenditure of R&D funds, that I believe that while the structure of it may, in fact, appropriately be tuned a little bit, to apply the total base as opposed to the growth increment, I think the idea of it is a very sound one.

Chairman ROSTENKOWSKI. Mr. Young, I am afraid we have imposed on you more than we expected. You have been very generous with your time. If you want to make your plane, I am suggesting that you take your leave.

Mr. YOUNG. Thank you.

Chairman ROSTENKOWSKI. Mr. Robinson, if there are any questions, I am sure you can handle them in Mr. Young's absence. Does any member of the committee have any further questions?

Mr. Crane and Mr. Moody.

Mr. CRANE. Thank you, Mr. Chairman. I regret Mr. Young's departure. I was going to quote from his testimony, and applaud it.

Before you get out the door, Mr. Young, I would like to discuss your testimony quickly. You mention opening Third World markets is essential, but only a necessary first step. They do not make us competitive, or guarantee any narrowing of our trade gap. I could not agree more with that.

Under Secretary of the Treasury Bruce Smart last year testified that if we had a total free market in place right now that it would at best impact on our trade deficit only 10 to 20 percent. He suggested the problems were a lot more complicated, and looking at your schematic, I think you covered a lot of them.

There are so many problems that have surfaced. There is the cost of labor, which in manufacturing in the United States is double what it is in Japan. It is more than double what it is in Great Britain and 50 percent higher than it is in Germany, for example.

In addition to that, productivity is lagging. Some of the figures are really staggering. I saw a report that a joint venture between Toyota and GM in Fremont, Calif., reduced job descriptions to four.

The UAW insisted on 80 job descriptions in the autoplants in Detroit, but management was no better. They have 52 different levels of management at GM. We have been top heavy with bureaucracy. When we got the voluntary restraints in 1982, they came in with the biggest profit year by raising prices in Detroit in 1983, and then they gave themselves those magnificent bonuses for the outstanding management job they did in 1984.

At the same time, they are leaning on the unions to exercise restraint.

I have some other figures that are equally astonishing. These are from our own Bureau of Labor Statistics. In 1984 the average production in dollar terms of goods by an American worker in an American-run plant was \$87,000. In a Korean-run plant in America with American workers, it was \$96,000. In a Japanese-run plant in America with American workers, it was \$155,000. If you look at the hours that go into the production of Japanese cars, it averages 80 to 100. Here we are running 150 to 160.

Now, wealth is defined as an increase in productivity. If we are going to live better, I think we have to acknowledge that trade is a part but a very small portion. I mean, our total exports last year—I finally got verification of these figures—constituted only 5 percent of GNP.

Our total world export is \$217 billion. I think it is important to recognize that we are living beyond our means—government, business, individuals—in terms of the debt load we are carrying, and a part of this is reflected in increased consumption running imports at \$387 billion a year basis.

Goodness sakes, we have the money to spend. We have plants running at under 80 percent capacity. If we really want to address this problem then, it seems to me, and I know we are beating on the same drum, we should reevaluate what we did in the Tax Code.

Does the reduction of the R&D credit enhance or diminish increased productivity? I would argue that it diminishes it. The increase of capital gains most assuredly is calculated to guarantee a tremendous reduction in the availability of venture capital on the one hand and is going to reduce revenues rather than increase them. Already they got their windfall revenue gain between October 1 and December 31 of last year when everybody sold off.

Treasury's own studies, and this goes back to Office of Tax Analysis in September 1985 on capital gains tax reductions for 1987, acknowledges that an increase in capital gains probably would

produce a contrary result from what people expected, namely it would diminish revenue.

They said that past experience with reductions of capital gains resulted in increases in economic growth, capital formation, productivity, long-run consumption levels and increased the incentive for private savings.

I would pose a question to you. Do you think, given the prospect of enhancing revenues on the one hand while simultaneously getting all these nice fringe benefits like increased capital investment, consumption, economic growth and private savings, that we ought to, at the very least, go back and reevaluate what we did on capital gains?

In fact, there is a study by the National Bureau of Economic Research that suggests taking it to 16 percent would optimize revenues on the one hand and production and venture capital on the other. What do you think?

Mr. YOUNG. Let me give you a very personal opinion. I think the up and down tax policy has been the most unsettling part of all. I think we would all benefit from a period of quiescence, and we may have been able to do some things slightly better, and I am sure there will always occur to us things that could have been improved and so forth.

But I think the differential rate today between capital gains and ordinary income as it settles through the transition period is not dramatically out of whack, and that probably the most important thing is to have a period of stability and dependability around which all of us can plan our businesses and make our future plans.

Before I go, I am going to set Jimmy up with something he can explain to you. You are right that in the long-run when we get the right kind of purchasing power parity with our exchange rates and we get this kind of playing field out there that American business can compete in that the differential productivity growth rate is really critical in increasing our wealth.

Now, if you go back and parse the aggregate statistics that you were citing, you will find that, in fact, manufacturing productivity has had a real turnaround, and that all the abuses you cite that are very real people have been working on.

You got to Ford and General Motors and all of them, yes, they have not maybe had the perfect plan. They were not executed perfectly, but it is way better than it was.

Mr. CRANE. Do you share Ross Perreau's evaluation of GM's management team?

Mr. YOUNG. I will pass on that one. The point is our manufacturing productivity has, in fact, gone up. Now, the problem is that our total national productivity is relatively low and that the real serious problem is the fact that services productivity is now, in fact, about zero, and the real risk is that we get all of these things set up in international markets, the next wave of competition is around services, and we are really not going to have the forward progress, the rate of movement to be the leader in services, and that could be at risk as well.

Mr. RANGEL. The next witness is our colleague, the Honorable Jerry Lewis.

STATEMENT OF HON. JERRY LEWIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, REPUBLICAN TASK FORCE ON TRADE, AND CHAIRMAN, REPUBLICAN RESEARCH COMMITTEE

Mr. LEWIS. Thank you, Mr. Chairman and my colleagues, I want to express my sincere appreciation for your allowing me to come in my capacity as the chairman of the Republican Research Committee, and present the initial stages of our views and our thinking, relative to changes in trade policy.

In the last 18 months I have had a most revealing experience in dealing with the House's new effort to develop bipartisan work in major public policy areas of concern.

Last year it was my privilege to be chairman of a task force appointed by Bob Michel to deal with the area of drugs, and the problems that we faced in that whole subject area in our society.

Mr. Rangel played a very important role, from the Democrat perspective, assisting Jim Wright in coming together with us to hammer out many differences. A bipartisan effort was required to meet that challenge.

The final product was a very excellent one. It wasn't everything that everyone wanted, but we did see significant movement.

Now, Jim Wright is no longer the majority leader. He is the Speaker. I think he has been very wise in raising, early in this 100th Congress, the level of interest and priority relative to our problems in the field of trade. It wasn't so long ago that we blithely ignored the difficulty of those challenges, as we saw trade deficits begin to grow, but at this point in time it clearly is a major problem of high priority to the Congress, and to many of our constituents.

Having said that, Mr. Chairman, it seems to me that it is important that we learn from some of the lessons of the past as we consider that which is before us.

I have spent a little time reviewing that which took place in 1930, when the Congress considered what eventually became known as Smoot-Hawley. Over a 17-month period, the Congress looked at a number of important problems relative to the field of trade. In retrospect, their product, after considerable input and debate, was a clear disaster.

I would urge the Congress to move forward efficiently, but certainly not pell-mell, over some cliff. And I understand that this committee is concerned with that very prospect. They want us to move forward with patience and deliberate speed to develop a product that ideally will involve two kinds of bipartisan support base here in the House, and in turn reflect some of the concerns and interests of the administration. In the final analysis, our trading partners will look at our policy, and if we are not together as Americans, they will continue to be, as they often are, confused about what our real policy is.

I might report to the committee that from a Republican leadership perspective, we did crystalize a meeting with the administration a couple of weeks ago. A number of our members, including Mr. Duncan, were present. All of the key players in the present ad-

ministration were in the room and they were given long overdue high priority on the problems we face with our trade deficits.

There were direct orders laid out that they produce a product early on in this session, so that our committees can address their concerns as they go forward with their own policy considerations. That bodes well, when you combine that directive with the Speaker's words today, for the development of a product that indeed could be good for America and take us down a path toward solving the drag that trade deficits have been upon GNP growth.

I know that there is a broad perspective of views from this committee and ours will represent only a piece of those views. It is important, however, that we take a hard look at those areas where we see stumbling blocks to bipartisan progress. There is no question that the trade deficit, in significant part, relates to problems with our trading partners and the way they deal with our products' interests in their countries.

But to assume that the trade deficit is solely caused by unfair trading practices of America's largest trading partners would be a serious mistake. To ignore many of the problems at home would in the final analysis, distort our products. It is my view that such a misguided approach might very well significantly hurt American consumers.

To take ad hoc steps to protect individual industries without measuring their willingness to improve their own long-run competitiveness would be a mistake. At every step along the way, we need to recognize that America has the capacity to compete in the world. Our manufacturing base is among the best in the world. If we overreact by way of attempting to subsidize low-productive jobs within our economic system, we, in the net, may hurt our ability to compete and harm our consumers.

The greatest resistance we see within our own conference would appear to center around the support of some for unilaterally imposed punitive quotas that essentially would say that the total problem that we face is the unfair trade practices of our partners.

This committee knows better than that. It is very important that we address those problems, but we should not ignore the very important impact of domestic problems.

I specifically return to the reality that our deficit has a huge impact upon the value of our dollar overseas, and in turn, reflects a significant problem for our ability to compete in the world marketplace.

It was Thomas Paine who once observed that there was not a place on Earth that might be so happy as America. Her situation is remote from all the wrangling Nations of the world, and she has nothing to do but trade with them. To say the least, our problems today are different than those described by Thomas Paine.

I personally believe that the Congress is ready to move. Our Task Force on Trade and Competitiveness which our leader has asked me to cochair, looks forward to reestablishing the pattern that we used last year in dealing with the drug bill. In that process key members from the various committees with jurisdiction came together and ironed out those areas where we had differences.

The Speaker has already indicated his willingness allow us to work on some of our differences, by way of amendment, to various

sections of whatever bill comes to the floor. His calendar is a very tight one. I personally am concerned about it being too tight, and too open to amendments in the section that might affect the work of your committee; and I am personally supportive of being rather reserved about that portion of the debate.

Nonetheless, our success last year portends very well for the work of the House. We will be watching most closely, this new speakership. We will be most fascinated as the historic 100th Congress goes forward, to see if indeed we can approach this problem in a bipartisan fashion.

Thank you, Mr. Chairman.

[The prepared statement follows:]

TESTIMONY OF
THE HON. JERRY LEWIS
BEFORE THE WAYS & MEANS COMMITTEE
FEBRUARY 10, 1987

It was Thomas Paine who once observed that there was "not a place on earth (that) might be so happy as America. Her situation is remote from all the wrangling nations of the world and she has nothing to do but trade with them." Today, we are not quite as pleased as Thomas Paine was about the trade situation we find our country in. That is simply unrealistic given the almost uniform and bipartisan dissatisfaction with America's trade deficits which have now been estimated at \$139.7 billion for 1985 and a whopping \$169.7 billion for last year.

Initially, the mounting trade deficits were of limited concern. After all, they occurred as our economy recovered from the recession that characterized the world economy from 1980-1982. As the trade deficit persisted, it became widely recognized that it was posing serious problems for our economy. It has become the principal drag on real GNP growth. Worse yet, it has stimulated the growth of protectionist sentiments both here and abroad.

It is in this environment that the Speaker has taken the wise step of putting trade and competitiveness at the very top of our early agenda for the 100th Congress. I serve notice here today that House Republicans stand ready and willing to forge a bipartisan trade plan to accelerate the recent gains made against the deficit by the falling dollar.

At the end of last Congress, I served as Chairman of the Republican leadership's task force on drugs. I have now been appointed by Bob Michel to co-chair a similar effort on trade and competitiveness problems.

I learned a surprising lesson on the drug task force about the way things can be made to work around here when both sides see mutual gain from putting timely policies above partisan opportunities. I have, firmly etched on my mind, the tremendous cooperation extended to us by former Majority Leader Wright on the drug bill. He was forthright in seeking out the minority's views and in seeing to it that our maximum objectives were protected in the form of amendments submitted to the Rules Committee. That gave us the opportunity to present our views on the floor and we did so with considerable success.

We will be following the Speaker's moves very closely and we join with the Speaker and Chairman Rostenkowski in the effort to take timely action on a comprehensive bipartisan trade reform bill. We have high and honorable expectations and it is our hope that they will not be dashed against the twin shoals of partisan gamesmanship and protectionism. House Republicans are aimed in the direction of solutions not political one-upsmanship. We choose to avoid that particular path of confrontation which simply seeks to politicize an issue regardless of the window of opportunity for critical legislative action. We believe that we have some answers and hope the process of crafting a comprehensive bill will give full and fair consideration to our ideas.

The Speaker has made it clear that H.R. 3 will be the starting point for discussion of trade revisions. I appeal to the Speaker and the Chairman of this committee to do everything within their authority to give a full and fair hearing to all alternative proposals especially the comprehensive proposal that the President will be sending to the Hill in the next few weeks.

As we begin the process of developing a bipartisan trade bill we need to keep two things in mind. The first is that we must realize that, whatever we enact, will not be the ultimate solution to the trade problem. The reason is that the answer can not come from government alone. The market has a role to play and

we must not undertake policies which constitute unreasonable interference with the market's natural role.

Secondly, and perhaps more importantly, we should take a moment to remember one of the lessons of Smoot-Hawley. We find that lesson echoed in the Senate debates of June 16, 1930. Senator Pat Harrison of Mississippi could not understand why the Tariff Act of 1930 had been rushed through the Congress. In the debate he offered these sentiments. "There never has been practiced, in the consideration of any measure of this magnitude, such deception and hypocrisy...Do senators recall in all their legislative experience, a tariff bill, having been printed at government expense and published and distributed as 'the tariff act' of the year in which it had been passed before the bill had even reached the hands of the President and before he had signed it."

Senator Harrison's complaint came after 17 months of debate over the trade bill of that era. Today we are in the initial stages of enacting another comprehensive trade measure and we are being told that our action may have to meet a deadline for action that is much shorter. I urge the Speaker and all those who share in the making of the House agenda to give serious consideration to a more realistic timetable for final House action.

Having said that, I think it might be wise to take a few minutes to attempt to clarify the complex question of what we as Republicans may be looking for in a trade bill. More to the point, it might be more profitable to explore the one thing that some members like myself will not accept. That item is unilaterally imposed punitive quotas. As you may remember, the bill we passed (H.R. 4800) in the 99th Congress was offered with a provision mandating the President to impose import quotas if some of America's largest trading partners failed to reduce their trade surpluses by a specified percentage within a particular time period.

Let not a free and open world marketplace--that creates growth and jobs and opportunity--fall scapegoat to our own unwillingness to deal with the deficit. We may succeed in deflecting the public's attention from our irresponsibility but continued unwillingness to deal directly with the greater crisis that could be the bastard child of ever expanding budget deficits will have its ultimate day of judgement.

Let me just say that there is no credible evidence that unilateral quotas are in any way an effective element in a national trade policy. They are politically savvy only if you intend to mislead the American public into believing that our considerable trade deficit is totally the fault of the rest of the world. I believe that the growth of unfair trading practices which fall outside the existing rules negotiated under GATT are a substantial problem. That is why I have joined my fellow Republicans in supporting new GATT authority for the Reagan administration. Only then, can we make a really meaningful dent in non-tariff barriers which have become the nefarious modus operandi of many of our foreign competitors.

In fact, the causes of our growing trade deficits are multiple and largely domestic. Chief among them are the size of our federal deficit with its corresponding impact on credit markets, the deterioration of our private savings and investment balances and the appreciation of the dollar against other currencies between 1980 and 1985.

The evidence against punitive and unilaterally imposed quotas is clear. Early last year, the International Trade Commission released a study of the impact of voluntary auto quotas. Their conclusion was that the quotas had saved 44,000 jobs between 1981 and 1984 in the American auto industry. They had saved those jobs at a cost to the American consumer of \$15.7 billion over three years. That amounts to a subsidy of \$356,818 per job saved.

A similar study was released by the Congressional Budget Office in November. The CBO's analysis of efforts to protect four industries--steel textiles, footwear, and autos--concluded that, and I quote, "In none of the cases studied was protection sufficient to revitalize the affected industry." More to the point, the protections offered did nothing about relatively high

domestic costs such as wages and management practices which were at the heart of the problem for these manufacturing giants. The CBO also concluded that the quotas involved raised profits in these sectors modestly thereby making it possible to retain higher wage rates. Furthermore, the quotas encouraged foreign competitors to shift their product mix to higher values since their volume of sales was restricted. In short, quotas are a very appealing way to bail out suffering industries. They create inadequate and perverse incentives for the needed investments to revitalize and they end up costing consumers billions of dollars.

There are many members of this committee with more knowledge and expertise on the subtleties of trade than I have been able to develop in my eight years in the Congress and I am very appreciative of the Chairman's effort to offer me this early opportunity to address this fundamental issue. I would like to close if I may with four final thoughts which I would hope might serve as basic guides for this committee's ultimate actions to address the trade problem.

(1) We should have a solution that is not politically easy. That is, we can not simply condemn our trading partners and expect them to solve our way out of these high trade deficits. New GATT authority and bilaterally negotiated free-trade zones are responsible steps in this direction.

(2) Secondly, let's always try when we are debating the wisdom of various proposals to remember the difference between protection and protectionism. American manufacturing industries hit hard by the dollar and unfair trading practices deserve protection. Such protection should be temporary and it should be accompanied by either substantial industry-wide revitalization or properly compassionate assistance and training for displaced workers. Protectionism is embodied in precisely those solutions like mandatory quotas which are imposed rather than negotiated. It may guarantee temporary recovery but it will not guarantee the type of revitalization that is needed to keep this country's manufacturing base competitive.

(3) Let us always remember that our political process favors the organized special interest over the average American. As you debate solutions, ask yourselves whether the actual costs to American consumers will exceed the benefits to particular industrial sectors. The phrase 'a billion here and a billion there' is as applicable to consumers in trade matters as it is when you talk about new spending programs and the budget deficit. One respected estimate is that the Carter grain quotas cost American consumers between \$30 and \$50 billion.

The most monumental mistake would be to load a trade bill with goodies for various and isolated sectors of the economy suffering ills from a wide variety of causes so that voting against the bill would be akin to a politician voting against motherhood and apple pie. The national interest mandates a comprehensive solution. I think we can do no less.

(4) Finally, let us not engage in blatant demagoguery about the relationship between jobs and the trade deficit. For an unfortunate few in this body, waiving the red flag of endangered jobs will be their only role in the debate. We must be clear about our objectives. For some, the objective is to create a political brouhaha which scares working Americans into the belief that their jobs are forever at risk. Scoring political points in this fashion will be neither accurate nor constructive. What is at stake, is our economic progress. Can we continue to be the economic engine for the world economy? I think we can if we take the right actions and send the proper signals to our trading partners.

Underscoring this whole effort is the fundamental precept that protecting high-wage low-productivity jobs can not be the sole and driving force behind a realistic trade strategy. One only has to go back to the last year in which the U.S. had a trade surplus to put the trade deficit-job protection bogeyman to rest. That year was 1975 and during 1975 we lost 1.7 million manufacturing jobs and suffered from an unemployment rate that hovered near 9 percent. Last year we suffered from a record trade deficit and lost 146,000 manufacturing jobs. Since 1980,

manufacturing employment has declined by 655,000 jobs. That loss can be accounted for, in part, by the 7 percent rise in productivity during those years.

A last complicating factor is to be found in the nature of Western economies. Like it or not, all the major world-class economies are shifting from a labor and capital intensive mode to the more labor-intensive service sector driven type of economy. Only when one commits these realities to memory can it be fully understood how wrongheaded it is to portray the trade issue as one whose solutions are primarily derived from addressing the link between enormous deficits and troubled manufacturing jobs. There is a representative imperative to seek solutions to pressing economic dilemmas. That should never be confused with the politics of protecting jobs in industries that fail to take progressive steps to revitalize. Therein lies the genesis of that overused new buzzword---competitiveness. Making our industrial strength more competitive in a lasting way should be our highest priority in drafting legislation.

That is the fundamental difference between the way we discussed trade issues in the last Congress and the way I hope we can discuss these issues this year. Our objective is a competitive economy. That means pursuing maximum employment opportunities, securing a rising standard of living, and providing the maximum amount of choices for discerning American consumers. We can not be unconcerned about jobs in any sector of the economy. We must not be solely preoccupied with protecting them at the expense of comprehensive long-term trade solutions.

Mr. RANGEL. Thank you, Mr. Chairman, and your advice and support is well appreciated, especially at this time, during the day.

Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman. I also want to thank you, Jerry. I think your statement and the way you presented it has been the very best that we have had in the many, many days before this Ways and Means Committee. For a nonmember of the committee, I think you are abreast of the problems and opportunities that we have in this committee, and I am glad that you came to express the sentiment of the leadership. We do want to work in a bipartisan manner, and it will be tough, because we have Indians who try to get out of the tribe. But I think we can do it if we all are in good faith. Thank you so much.

Mr. LEWIS. Thank you.

Mr. RANGEL. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman. I too want to congratulate you, Jerry, for a fine statement. I read the statement, and I think you are precisely on target.

So many aspects of this problem, as you correctly point out, need resolution in the marketplace. For all of the attempts to disparage the role of the marketplace, it is still a better discipline, and always has been, than Government trying to fine tune economic decisionmaking.

There are ways, however, in which the Government could increase productivity. Even Jim Baker conceded that after he submitted the administration's first tax bill back in May of 1985. He said in the best of all worlds, we would have a flat tax. We would not tax businesses, and we certainly would not provide disincentives, as we do in our code, investments, savings and so forth.

So taxes are an area where Government has a role to play. The budget, certainly, has contributed to the problem, with these unbalanced budgets, and our living beyond our means as astronomically as we have done. We have antiquated antitrust laws that go back to an agrarian economy. We are in a highly competitive world economy, and eliminating the trade barriers here at home, insisting that Americans operate under free enterprise rules in competition with foreign countries, should strengthen those that are good, and stop giving artificial support, subsidization to the inefficient producers.

One point you hammered on is our need to reform such policies as how we sell off our timber, a renewable resource. Also, because of Government policy, our pharmaceutical firms are forced to go abroad, because if they try and export according to foreign standards but are without FDA approval as yet and are manufacturing in the U.S. they can't sell those products overseas. So you force them to open up a plant in some other country.

In addition to these, another stupid counterproductive Government policy is the reluctance to export Alaskan oil. Finally, I would argue, if you want to get real stability on monetary policy, the quicker we consider getting back to a gold standard, the better. Then we will, indeed, worldwide have honest money again and stability. We can't play games with a dollar that is artificially devalued. We stiff the Japanese big time, but that could come back to spook us, if that dollar sinks any further, I don't think the Japa-

nese will be willing to invest in our debt, any more than foreign creditors in Western Europe will be willing to do it.

Thank you for taking a more balanced perspective than I think some of our colleagues are willing to take, when looking at these very serious problems. I am grateful for your testimony.

Mr. LEWIS. Well, Mr. Crane, I appreciate your comments. You know where I come from generally on these issues, I was informed by the chairman that the answer to your question was yes.

Mr. RANGEL. The committee will stand adjourned, subject to the call of the Chair.

Mr. LEWIS. Thank you, Mr. Chairman.

[Whereupon, at 4:40 p.m., the committee adjourned, subject to the call of the Chair, and the Subcommittee on Trade resumed the hearings.]

COMPREHENSIVE TRADE LEGISLATION

WEDNESDAY, FEBRUARY 18, 1987

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The subcommittee met, pursuant to call, at 9 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman GIBBONS. Good morning, ladies and gentlemen. Let's start with our meeting.

Today the Subcommittee on Trade will continue hearings begun by the full committee of Ways and Means on comprehensive trade legislation. These hearings will continue for 3 more days, on February 20, 26, and 27, to receive views on H.R. 3 and other legislative proposals on trade.

Before we begin our markup, given the limited time and the large number of requests to testify, witnesses are requested to summarize their testimony on the understanding that all written statements will be printed in full in the hearing records.

Our leadoff witness today is the Hon. Olympia J. Snowe, Member of Congress from Maine.

STATEMENT OF HON. OLYMPIA J. SNOWE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MAINE

Ms. SNOWE. Thank you, Mr. Chairman.

Chairman GIBBONS. Ms. Snowe, we are glad to hear you.

Ms. SNOWE. Thank you. I appreciate being here, Mr. Chairman. I will summarize my statement and ask that it be included in the record.

Mr. Chairman, members of the committee, I appreciate this opportunity once again to be able to testify on trade reform. I hope this will be the last time.

Chairman GIBBONS. Don't worry; it won't.

Ms. SNOWE. It won't be?

Chairman GIBBONS. Not unless you are planning on quitting.

Ms. SNOWE. Well, I hope that we will pass a major trade reform package this year, Mr. Chairman.

Chairman GIBBONS. I think we will.

Ms. SNOWE. It certainly has been important to have your leadership on this issue, and I appreciate your leadership in developing legislation in this very important area of trade reform. I think the very fact that another year has passed without any significant

action on trade reform only heightens the need for Congress to address this issue.

The year 1987 will be known as the year of competitiveness, and certainly there will be a number of legislative proposals that will be designed to improve our economic standing in the international marketplace. These are certainly legitimate and worthy goals, but I see trade reform and competitiveness not mutually exclusive but compatible goals.

Toward that end, I think that we have to start with trade reform if we are to provide any substance behind the drive of competitiveness, so I would hope that the administration as well as the Congress will address the structural deficiencies that now exist in our laws, and the application of these laws. Otherwise, I do believe competitiveness will remain the empty buzz word of the 1980s.

Our trade problems, as you know, Mr. Chairman, are manifested in the \$170 billion trade deficit. I happen to think that one of the root causes of our trade imbalance and our poor trade performance is the fact that the U.S. Government has ignored the manner in which other governments have manipulated the international trading system.

Because of the volatility of the world economy and the changes in the global economy in the last 40 years, it has been further exacerbated by the trade restraints and the barriers imposed by other nations, and I don't believe the United States can afford to ignore the actions taken by other countries.

We are virtually alone in our approach to adhering to a free trade policy and that can be illustrated by any number of figures. For example, from 1982 to 1985, the U.S. economy absorbed 55 percent of manufactured products exported by developing countries. Japan, on the other hand, absorbed only 9 percent from the LDC's.

Nor is trade in manufactured goods the sole problem. The service industry, which has been critical in holding down the level of unemployment and boosting per capita income, gives us cause for concern as well. From 1983 to 1985, the United States went from a \$1.35 billion surplus in our services trade with Japan to a \$1.8 billion annual deficit.

Not only are we talking about loss of jobs and economic growth, but we are also talking about loss of the market share. There is no question it is very difficult to recapture the loss of the market once we have lost it to foreign goods. It is difficult from the standpoint of breaking the loyalty that develops toward farm products as well as restoring the confidence in American products. Because this is a complex and difficult process, we need to move quickly to eliminate the number of flaws that exist in our trade laws.

The problem of market share is highly evident in the example of the domestic footwear industry. For the last 4 years the domestic footwear industry has had to absorb 25-percent growth in imports. The combination of the fact that the United States has been targeted for exports by other countries, the very fact the United States remains virtually the only open market in the world with respect to footwear, and the fact that we have to compete with other nations with lower wages have given imported footwear 80 percent of our domestic market. Even with the creative restructuring plan de-

veloped by this industry, it cannot be set in place without some form of temporary relief.

In spite of the fact that the industry has invested in new computer equipment, and the fact they have increased their level of exports for the first time in 1986 in several years, imports increased another 11 percent in 1986 over 1985 has resulted in the lowest level of production in the history of domestic footwear.

The tally sheet for success for other Maine industries such as the potato and fishing industries has also been a very poor one when they have pursued statutory relief under the U.S. trade laws. I can say with some experience that our key U.S. trade laws, which are now the focus of trade reform legislation, have too many loopholes; they are too time consuming, too expensive for any industry to pursue and ever hope of achieving success.

The relief provisions in these trade laws are subject to the whims of an administration, and this administration I think has shown a distaste for taking effective action; I think this demonstrates the flaw as too much discretion. Our laws, I know, are designed to help our industries in fighting unfair trade practices or major surges in import growth, but unfortunately that has been more in theory than it has been in practice.

As you know, the President denied the domestic footwear industry relief when it had been recommended by a unanimous determination by the International Trade Commission. That was a particularly crippling blow because the domestic footwear industry had invoked section 201 on six different occasions since 1970.

It was a particularly difficult decision because not only had the International Trade Commission recommended on a unanimous basis relief for that industry but they also have had to absorb double-digit increases in imports since 1980.

The trade nightmare for the domestic footwear industry is an episode that I think this committee should reexamine. They went through the prescribed procedures under section 201. They have faced on six different occasions under section 201 either that the International Trade Commissioners were split in their decision, that the President denied relief to the industry, or that the definition of material injury was too narrow, which, as you know, was subsequently redecided through legislation in 1984, ultimately leading to a reexamination of that case in 1985 by the ITC and the subsequent unanimous ITC ruling.

The Maine potato industry has not fared any better with the existing trade laws, a very small industry comprised of 900 family farmers, which filed an antidumping petition in 1982. A year later they received a second subsidy determination by the Department of Commerce that imported Canadian potatoes were being sold in our markets at 36 percent below the fair market value. But it wasn't for another 2½ years before they finally were rejected in terms of relief.

The International Trade Commission used different pricing data from the Department of Commerce. In turn the Commerce Department determined that the potato industry had been damaged but not because of imports, so as a result, after 3½ years of labor at a cost of \$250,000, the potato industry found no relief.

Maine's fishing industry in concert with the fishing industry in New England submitted a countervailing duty petition. Yes, they were granted relief recently, but it was only a third of what they had asked, and the tariff was only imposed on whole ground fish. As a result, the Canadians can now take advantage of exporting their processed ground fish as a way of getting around the new tariff on whole ground fish.

I think that these examples—and there are more, Mr. Chairman, that I detail in my full statement—give an indication of the fact that it is not only Maine's industry but a number of industries throughout this country which have attempted to utilize the trade laws fairly, but have not been able to get legitimate support by the U.S. Government.

I would like to quote from the comments of William Perry, an official of the Department of Commerce, who describes the situation quite well. He said:

There is a growing perception among those who do not rely on trade laws that the U.S. laws are protectionist in a negative sense—that such laws reduce healthy import competition solely to save American jobs and businesses.

He continues:

In fact, U.S. trade laws are designed either to alleviate on a temporary basis the dislocations in U.S. industry caused by successful and commercially fair competition or to eliminate the effect in the United States of certain foreign practices which the international community recognizes as commercially unfair and injurious.

I think that message is a simple and very accurate one. Other nations have used—and will continue to use—their laws to protect their industries against unfair trade practices as well as major surges in import growth. Their laws provide that kind of swift and unilateral action.

I think that we have to decide what our trade laws are ultimately to mean. If we do not want to provide avenues for meaningful relief, then let's not establish legal facades that promise to do otherwise.

I believe it is time for the United States to utilize our trade laws, to use these laws for what they are designed to do, not on an ad hoc basis, but rather in a manner that will demonstrate to our trading partners that we will have no other recourse than to act and to take action against predatory practices.

In my full statement, I detail a number of recommendations that I would suggest should be basic in any trade reform legislation, but I would like to briefly summarize those recommendations.

First, under section 201, which, as you know, is a fundamental recourse for any company that is trying to seek some relief from import surges, I do believe that we should require mandatory relief in instances of unanimous International Trade Commission rulings.

Second, I also believe that under affirmative ITC decisions, the President should be required to obtain congressional approval for a lesser form of relief, or in cases of denial.

I also believe that we should provide fast-track consideration of perishable commodities to help with sudden surges, such as the case with the potato industry. It should not require them to pursue the process for 3½ years only to find that they have been denied

that relief. They should be assured of a responsive relief mechanism.

I also would recommend a fast-track reconsideration process for any industry which has been denied relief in the last three years by the President in instances where there have been unanimous ITC rulings.

I also support the recommendation, and I know there are variations of this recommendation in the major trade bills in both the House and Senate, concerning industry adjustment plans. I do think that petitioning industries should be required to demonstrate that they can be competitive upon the expiration of any such relief.

Finally, under section 201 I also would recommend that the injury standard should be broadened to reflect industrial targeting as well as the existing conditions of a domestic industry.

Concerning section 301, which, as you know, also can be a very effective weapon, but unfortunately Presidential discretion again can be a major stumbling block, although I do recognize that the administration has utilized section 301 on several occasions since 1985, I frankly believe that we should require mandatory retaliation against those countries who violate our trade agreements or pursue practices that are determined to be unjustifiable in the annual national trade estimate. Frankly, I think we should demonstrate to our trading partners that certain practices are explicitly impermissible.

As far as countervailing and antidumping petitions are concerned, I believe that we should expand these provisions to include natural resource imports, as you have suggested in the past, Mr. Chairman. The criteria also should be expanded to allow for critical circumstance situations, diversionary dumping as well as fungible products cases.

Finally, concerning multilateral and bilateral negotiations, Congress should be consulted and should be involved in the process every step of the way. I also do not believe that we should extend tariff-cutting authority to the negotiators for import-sensitive products, such as footwear.

Finally, with regard to trade adjustment, I support the concept of tying retraining benefits to personal benefits. Frankly, the trade readjustment assistance, as far as my experience is concerned, has been very important to workers who have lost their jobs as a result of trade problems and trade imbalances. It has been the only ray of hope in what has otherwise been a very abysmal trade picture. In previous years it has been very important in the absence of meaningful trade legislation as well. But I think we need to have personal benefits tied to the training to make this program as effective as possible.

In summary, Mr. Chairman, I would like to say that I think that we can accomplish trade reform legislation this year, that it is compatible with the goals of competitiveness, and I don't think one should be substituted for the other. I think that we can find that these are complementary goals.

Finally, the people I am privileged to represent have been hurt over and over again with the inequities and distortions that exist in our current trade laws. Since I have been in Congress, since 1979, I have worked with a number of industries concerning the

trade processes and the trade procedures and I can only tell you we are long overdue in terms of addressing the problems that exist.

I think we have to face the reality of the changing global economy, and the reality of the fact that our trading partners are not pursuing a free trade policy as the United States has in the past.

We have to demonstrate to the people of this country that our Government is willing to take the minimum steps necessary to protect its industries.

I thank you very much, Mr. Chairman, for allowing me to testify, and I would be willing to answer any questions.

Chairman GIBBONS. Thank you.

[The statement of Ms. Snowe follows:]

STATEMENT OF HON. OLYMPIA J. SNOWE, M.C.

Mr. Chairman, I wish to thank you, as well as the other members of your subcommittee for granting me this opportunity today to provide testimony on trade reform legislation.

The underlying and continuing inequities which pervade our nation's trade laws are the key reasons trade reform remains one of the most pressing issues this Congress faces. Indeed, the fact that yet another year has passed without any significant step towards a sensible trade policy heightens the need for Congressional action at this time. Thus I commend the Chairman for renewing his commitment to Members of the House to provide essential leadership in the crafting of this legislation.

Documentation of our international trade woes is extensive, and is perhaps exemplified by the \$169.8 billion merchandise trade deficit. I believe, however, that the one of the root causes of this imbalance is equally evident: the United States simply has ignored the way in which foreign governments manipulate international trade. The volatility of the world economy is skewed and unsettled further by the range of subsidies, barriers and restraints of trade imposed by other nations. No longer can the United States afford to remain indifferent to the actions of other governments.

That we are virtually alone in our approach to trade can be illustrated by any number of figures. For example, from 1982-1985, the U.S. economy absorbed 55% of manufactured products export by developing countries. Japan, on the other hand, absorbed only 9% from LDCs.

Nor is trade in manufactured goods the sole problem. The service industry, which has been critical in holding down the level of unemployment and boosting per capita income, gives us cause for concern as well. From 1983-1985, the U.S. went from a \$1.35 billion surplus in our services trade with Japan to a \$1.8 billion annual deficit.

Beyond the loss of jobs and economic growth these figures reflect, I am concerned about lost market share as well. Once we lose a significant share of any given market, be it domestic or foreign, the process of regaining that share becomes extremely difficult. The process of winning back customers involves more than a competitive price, it requires restoring their confidence in American products and breaking the loyalty which may have built up for foreign products. Because this is a complex and relatively slow process, we need to move quickly to eliminate the multiplicity of flaws embedded in our trade laws and policy.

The problems of market share are highly evident in the domestic shoe industry, which absorbed import growth of 25% each year from 1982 through 1985, along with 11.6% growth last year. The combination of targeted exports to the U.S., the absence of any other open market for shoes in the world, radically cheap labor and other factors have given foreign competitors fully 80% of the domestic footwear market. The creative restructuring plan of the footwear industry is not enough to win back the market -- they need the temporary trade relief our trade laws have been too loophole-ridden to provide.

In fact, the tally sheet of success for Maine industries who have gone the distance under these trade laws for statutory relief is a very poor one. I can say with some experience that our key U.S. trade laws, which are now the focus of trade reform legislation, as they are now written, have too many loopholes, are far too costly and time-consuming for small industries to pursue, and offer little prospect for ever achieving success. With a lack of time-certain provisions and required relief provisions, trade law enforcement is subject to the whims of an Administration -- and this Administration's distaste for effective action has clearly demonstrated the flaw of that much discretion.

For example, in September, 1985, the President denied temporary trade relief unanimously recommended to him by the International Trade Commission (ITC), having found injury from import surges. This action, as I have mentioned to you before, was galling, given the firm position in favor of relief from the ITC and the crippling effect which imports had had on the domestic footwear industry over the past several years.

Having followed the steps necessary under Section 201, and having proven their case through this established administrative relief process, the decision to turn away the efforts of the footwear industry was a blatant mistake, and, I'm afraid, a reflection of the disposition of this Administration to ignore the reality of the current trade situation.

The trade nightmare for the footwear industry is a saga I recommend this Committee reexamine. Since 1970, six Section 201 cases have been initiated, but at various stages the process simply broke down -- because the ITC commissioners were split, because the President chose not to abide by the recommendations of the ITC, or because the ITC used too narrow a definition of material injury, the latter even requiring a legislative change in the law in 1984, and a complete re-examination of our case in 1985.

In short, the footwear industry suffered because our trade laws, in this Case Section 201, aren't well enough designed to do what they are intended to do. Thus far, the only law at work is Murphy's law.

Let me also briefly share with you the problems encountered by Maine's potato industry. This industry, now consisting of about 900 farm families in Northern Maine, filed an anti-dumping case in 1982. One full year later, the industry had won its second subsidy determination from the Department of Commerce, and the result was a finding that imported Canadian round white potatoes were selling at 36% below fair market value. Despite this glaring subsidy, the potato industry struggled through the trade process for two and one-half years, at a cost of \$250,000 they could ill afford, before ultimately receiving no relief whatsoever.

Maine's fishing industry provides yet another example of the inadequacy of our trade laws. Maine fishermen sought relief from the readily-identified subsidies provided by the Canadian government in their efforts to target the American market. After a lengthy process, our fishermen won only a 5.82% tariff when they had deserved 20%, and on fresh fish only, which did not cover processed fish. What resulted was that Canadian fishermen, instead of selling their fresh fish to American firms for processing, sold to Canadian processing outlets which in turn increased the export of processed fish to the United States. Thus, the tariff had the ultimate effect of giving a substantial boost to Canada's processing firms, with no noticeable improvement for Maine's fishermen.

And the experience of Maine's lumber industry is equally revealing. The industry first filed a countervailing petition against unfair Canadian practices in 1982, and then had to refile in 1986. The Administration initially said that it would not support the industry's case, despite a wide range of subsidies, including below market stumpage fees by Canada's federal and provincial governments.

But once it became clear that the industry's case was valid, and that a substantial tariff would be levied, the Administration finally decided to step in and negotiate a tariff agreement of 15% with Canada. The USTR's apparent motive was less to address a legitimate grievance filed by an American industry than to prevent any hard feelings north of our border.

The problems our industries face in Maine are, unfortunately, not unique. The comments of William Perry, an official at the Department of Commerce, describe the situation quite well. "There is a growing perception," Perry wrote, "among

those who do not rely on (trade) laws that the U.S. laws are 'protectionist' in a negative sense -- that such laws reduce healthy import competition solely to save American jobs and businesses.

"In fact," Perry continued, "U.S. trade laws are designed either to alleviate on a temporary basis the dislocations in U.S. industry caused by successful and commercially fair foreign competition or to eliminate the effect in the United States of certain foreign practices which the international community recognizes as commercially unfair and injurious."

The message is simple. Other nations have and use the laws on their books to address unfair and injurious practices, laws which provide both unilateral and swift action. We must decide what trade laws are ultimately to mean. If we do not want to provide avenues for meaningful relief, then we should not maintain a legal facade which promises otherwise. It is time for the United States first to update and then to utilize our trade laws.

A comprehensive, long term strategy is needed, and that has to be the goal of the trade legislation which this Subcommittee is endeavoring to write.

Mr. Chairman, I have some specific suggestions in certain areas for trade legislation, and I would like to share these thoughts with you:

Section 201:

As exemplified, perfectly in fact, by the woes of the footwear industry, Section 201 needs to be overhauled. This provision, the so-called "escape clause" relief mechanism, is a fundamental recourse for industries that are injured by surging imports.

First, I remain in support of limiting Presidential discretion, and I hope the committee would give consideration to language in the new Senate bill, S. 490, requiring mandatory relief with affirmative injury rulings that are unanimous decisions by the ITC. In addition, with any affirmative ITC ruling under Section 201, I believe the President should be obligated to provide relief if he concludes that relief will make a petitioning firm in any way more competitive.

For the President to deny relief in such cases, he must be convinced that an industry has no chance of ever becoming competitive again. If the President still favors the denial of relief, he would have 60 legislative days to convince Congress of some lesser form of relief, including no remedy at all. Thus, the President would have the opportunity to make his case for lesser relief, but the burden of proof would remain with him.

In addition, I think it is very important that an expedited Section 201 process be provided for proven injury cases denied relief over the past three years. This relief will allow the footwear industry, an industry that won a unanimous approval verdict from the ITC in 1985, to be awarded a relief plan, to be assessed and updated by the ITC in coordination with the industry. Again in this case, if the President chooses to deny relief, or recommend a lesser form of relief, he would have an opportunity within 60 legislative days to convince Congress. In light of how the footwear industry was so unfairly cast aside, this further opportunity for relief only seems fair.

Hand in hand with restricting Presidential discretion should be the requirement for industry adjustment plans. Such plans should be tailored specifically to enable firms to become more competitive as a result of the relief. While I recognize there are several variations of this idea currently under consideration, the importance of including the design for industry revitalization in ITC decisions nevertheless is clear.

I hope, Mr. Chairman, that a fast track mechanism for agriculture will again be included in your legislation. There

remains a clear need for agriculture industries to have a responsive relief mechanism that allows for swift emergency action -- 20 days under last year's bill -- upon affirmative findings by the Secretary of Agriculture and the President.

In addition, I support an additional concept for improving Section 201: broaden the injury standard to include such practices as industrial targeting, and other criteria relating to an industry's condition which the ITC should consider.

Section 301

Section 301 can be a very effective weapon in responding to the unfair trade practices of foreign governments, and it has been put to use by the Administration on several occasions in recent months.

Utilization of Section 301, however, can be improved, with Presidential discretion remaining the biggest stumbling block. I support provisions to require mandatory action in extreme cases, to guarantee that our trading partners see that some practices are explicitly impermissible.

Mandatory retaliation should be required of the President, or of the United States Trade Representative, for foreign trade agreement violations and practices determined to be "unjustifiable" in the annual National Trade Estimate. With these penalties for identified injurious and disruptive foreign trade practices, Section 301 could be even more effective.

Countervail/Anti-Dumping Petitions:

Nineteen eighty-seven's Trade Reform should also expand countervailable practices which are not currently covered under the law. For example, natural resources, such as timber, sold by foreign governments to their industries at below-market cost, should be included under the subsidy definition, as the Chairman proposed last year. Criteria should be further expanded to allow for critical circumstance situations, and to cover diversionary dumping practices and fungible products cases, all proposed by the Trade Reform Action Coalition last year.

Job Re-Training

As part of Trade Reform, I am pleased with the growing support for extending and expanding economic assistance to help the American work force move ahead with re-training in the wake of trade-induced layoffs.

The Trade Adjustment Assistance program and Job Training Partnership Act have been vital in the Second Congressional District of Maine as we cope with the onslaught of various imported goods. Retraining offers one of the few rays of hope in an otherwise dismal trade picture, and has been of heightened importance in the absence of any effective trade measures.

This year, a great deal of thought is being given to extending cash benefits, but also providing loans directly to firms for re-training. Tying personal benefits to re-training is reasonable, and will make our job re-training efforts more effective, and I support moving in this direction.

Negotiating Authority

As the reforms I have discussed here are, with hope, put in place, there remains one more procedural action to take -- increased consultation with the Congress on multilateral and bilateral negotiating. Congress needs to ensure that new negotiations not follow the past practices of sacrificing trade concerns of some industries to achieve trade concessions from other countries for other industries. Negotiators at the Tokyo Round, for example, effectively short-changed Maine's potato

industry by reducing tariffs, allegedly in order to obtain duty reductions with Canada to benefit other fruit and vegetable industries.

Further, I believe tariff-cutting authority should not be extended to import-sensitive products as part of the new GATT round. As one specific example of the need to protect certain products, the shoe industry is fighting a very uphill battle to hold on to the last 20% of the U.S. market. Without limited tariff protection for this obviously import-devastated industry, the industry could not proceed to remain viable in our own marketplace.

In every respect, I believe Congress must have a real and significant role in the development and conduct of trade negotiations and agreements. The pursuit of such agreements is an admirable objective of this Administration, only so long as real and significant progress can be made toward breaking down foreign trade barriers.

In summary, I would say to the Subcommittee, substantial trade reform is part and parcel of the effort to improve American competitiveness. They are complementary, and one should not be viewed as a substitute for the other.

Mr. Chairman, that's why this legislation is a vital step for this nation. The people of Maine I am privileged to represent, as well as millions of others in this country, have been hurt by the explicitly unfair practices of other nations. These people, whose commitment to and quality of work is unquestionable, feel not unreasonably that their government, in turn, has no interest in stopping these unfair practices. They are frustrated, since they have no recourse of their own.

With a strong Trade Reform bill, however, they will see that their government will take at least the minimum steps necessary to prohibit such practices. Trade reform can provide a fair arena within which our drive toward increased competitiveness can finally begin.

As an editorial in one Maine newspaper said, "The United States needn't impose draconian trade sanctions to protect itself.

"But neither should it allow its own workers to lose their jobs because it won't impose modest trade restraints. America needs free trade that's also fair."

So I again commend the Chairman and the Subcommittee for undertaking to produce such a bill, and thank you once more for listening to me this morning.

Chairman GIBBONS. Mr. Crane, then Mr. Jenkins, then Mr. Pease, and then Mr. Levin.

Mr. CRANE. First I want to recognize our distinguished colleague from Maine, who has fought a battle for quite some time on behalf of her home industries in her home State.

I have some reservations about some of the recommendations.

One of my questions, Olympia, concerns your reference to the 25 percent increase in foreign shoe imports between 1982 and 1985, and then its reduction to 11.6 percent in 1986.

Ms. SNOWE. No, actually imports increased 11 percent in 1986 over 1985.

Mr. CRANE. To be sure, but my understanding of the first half of that sentence is that we absorbed import growth of 25 percent each year from 1982 through 1985, so that it was half the increases we had experienced during those years, is that correct?

Ms. SNOWE. That would be true, except to say that we have already reached an 80 percent import penetration level, so I am not so sure we can go much higher without totally devastating the industry.

Mr. CRANE. How great was the annual increase in shoe consumption in this country during those years, do you know?

Ms. SNOWE. No, I don't have those figures. I would assume that they certainly increased during that period of time.

Mr. CRANE. Here is one of the concerns I have. The figures can sometimes be a little misleading, because you could have, for example, K mart sort of things, then it is not as devastating as indicated. Well, mart sort of things, then it is not as devastating as indicated. Well, I don't know the answer to that.

One of the points you mentioned in that same context on the first page is that in 1982 to 1986, the U.S. economy absorbed 55 percent of manufactured products from LDCs, and Japan only 9 percent. How much of that do you think really hinges on Japanese consumption practices? In other words, if they did not have reductions or barriers to importation of goods from LDC's, would that necessarily result in a significant increase?

Ms. SNOWE. I think if they are opening their markets, absolutely. I know Japan restricts importation of shoes to 1 million pairs of shoes annually, so I think certainly it would contribute.

I think that Japan and West Germany and other countries should open up their markets. I think for too long, particularly in the last 40 years, the United States has assumed a unilateral burden of absorbing those exports from the lesser developed countries, and certainly Japan and West Germany and other Western European countries have mature economies and should be able to do that.

Mr. CRANE. I agree that they should. They have the potential capability, especially Japan. But one of the things that our Secretary of the Treasury implicitly condones is the prospective change in the treatment of interest income for small savers in Japan. We want the Japanese to emulate our stupid policy of taxing a person for doing what we teach our children to do, and that is don't blow your paycheck, but put something away for a rainy day. So in effect we are trying to stimulate consumption in Japan by encour-

aging the Japanese to do the stupid things we have done for 50 years. Whereas about 20 percent of national income has traditionally gone into savings over there, and it runs about 3 percent here. So if you take our stimulus for consumption, their stimulus for saving, and then you add to it the egregious deficits that we have run with our tremendous consumption levels, and the business indebtedness, and then finally private indebtedness, the truth of the matter is we have been living vastly beyond our means, and a lot of our manufacturing industries are not working at 80 percent of capacity. And while your promotion of breaking down these trade barriers is absolutely correct, I think that we are not without sin here at home. A lot of our industries really ought to do intense soul-searching—business, labor, and Government—in terms of Government's contributory role to creating some of the problems that we are suffering.

Ms. SNOWE. There is no question that it is going to require a multifaceted approach to address the trade imbalance, but I think most importantly we have to address the inequities in our trade laws.

Concerning the shoe industry, we have lost another 70 plants in this last year, and I represent the State of Maine, which is foremost in shoe production in this country, and there is no way we can sustain the industry, given the level of import growth. We absorb two-thirds of what Taiwan, Korea, and Brazil manufacture in shoes.

There is no way any industry in Maine that manufactures shoes is going to be able to compete at that level of import growth. There is just no way, and during the quota period of 1977 to 1981, the industry was able to make a comeback. They were able to be competitive, but unfortunately once those quotas expired, they went into a downward spiral. Some of the industries will never come back, but there are many who could and can develop a niche in the marketplace, but they are not going to be able to do that, given the current levels of growth in imports, given the fact that we are the only open market in the world with respect to shoes.

Brazil does not allow the importation of shoes. It is not a two-way street, and I think that we have to make a decision concerning our ability to manufacture shoes in this country.

I don't think that we should use the trade laws to say we will pursue the lead but at the final end of the road, you are going to be denied that relief. In fact you have an entity like the ITC that recommends relief on a unanimous basis, provided, of course, that the industry accepts an adjustment plan, and I think that that is where you get your quid pro quo, in making the changes in this trade law. If they are going to seek relief from imports for a temporary period of time, then we should require an industry to make adjustments and to demonstrate that they will be in a competitive position upon expiration of that relief.

Mr. CRANE. That was my last question, and you basically answered it. Obviously, if you restrict imports, you give domestics a more competitive position with regard to the domestic market, but that is no guarantee that they would really improve their productive capabilities. Some of these things are beyond their control, like the imbalance in the value of the dollar, except with countries like

Korea, Taiwan, that peg their currencies to ours, but quality, productivity, investments in the Tax Code, increased investment savings and productivity in this country, I think, are all ingredients of that too.

I simply want to commend you. You are a very capable, outstanding representative of a very important industry and you plead your case with eloquence.

Ms. SNOWE. Thank you.

Chairman GIBBONS. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman.

Olympia, I want to express my appreciation to you for the continuing fight that you have made for domestic industries in your State and throughout the country.

I think one of the most meaningful statements that you made in your presentation is where you say that if we don't want to provide avenues for meaningful relief, then we should not maintain a legal facade which promises otherwise. I agree with you fully, the Congress, including this committee, has not addressed the issues. An example is the footwear situation, where you have an 81-percent penetration. I don't know how much beyond that an industry must suffer until some relief in some form is granted. Or in the alternative, simply say to that industry, you are sacrificed, because you cannot compete for whatever reasons.

I know the strong stands that you have taken for your industrial sector. I think you are absolutely correct. I would hope that by the time we get a trade bill, that we either have one that is meaningful or that we not pass anything. If we pass something out of this committee that, in my view, is nothing but a facade, I intend to oppose it on the floor.

Thank you for your statement.

Ms. SNOWE. I thank the gentleman for his comments. I know he has been fighting the same battle, and so I appreciate your statement.

Mr. PEASE. Thank you, Mr. Chairman.

Welcome, Olympia, and congratulations on the kind of excellent testimony that we would have expected from you. Just two questions:

One, you mentioned a couple of times your support for a requirement under section 201 that industries provide they can be competitive after the period of relief. Normally, that period of relief would be 7 or 8 years, perhaps 5 to 8 years.

Do you think that the shoe industry could become competitive after 7 or 8 years, in the absence of any import restrictions at all, that is, that the industry could overcome the wage scale advantage which other countries have?

Ms. SNOWE. Yes, I can, because there are some manufacturers in my State, for example, that have been able to become competitive in the more expensive, higher quality shoes. They have developed that market, that corner of the market, so I think that that is true.

I think that within the existing industry, those who have managed to survive, certainly I think would be able to survive at the end of the quota period, because many industries have closed and some will never come back, unfortunately.

Others are on the margin, and depending upon whether or not they will get any kind of relief, so those industries that have managed to survive thus far, I think certainly could survive at the end of a quota period, for example, or any other kind of relief.

Mr. PEASE. You would see then a likely shift in the industry toward the high end of the product line?

Ms. SNOWE. Yes, exactly. That is exactly what has happened. We have not been able to compete, as you know, in the less expensive footwear; footwear, for example, that comes from Taiwan, Korea, and Brazil. That is where we have lost the industry.

We have also lost many of the ladies' shoes. We have lost that market predominantly to other countries.

Mr. PEASE. Let me ask this: As a long-time supporter of trade adjustment assistance, I was pleased by your statement in support of that program indicating how important it has been to your workers.

You also mentioned the Job Training Partnership Act. An essential difference between the two, as you know, is that trade adjustment assistance provides income maintenance while people are in retraining, whereas the Job Training Partnership Act does not under title III.

Do you have any personal experience from dealing with your own constituents that would be helpful to us in indicating in which direction we should go?

Ms. SNOWE. Well, I review each of the letters that I receive. I will tell you I think you have to provide personal benefits. I do know that from experience, and in dealing with hundreds and thousands of workers who have utilized this in the State of Maine over the last 2 years.

The training program cannot be effective in order nor productive if you can't provide some kind of minimum benefits, so that they can go through the training program. I really think that that is a necessity, and I have heard that from a number of workers.

As you know, we had a problem, I think, with that last year, whether or not we were going to provide any of the personal benefits, because there is an interpretation of the provision in the continuing resolution, and I heard from a number of workers saying there is no way they could possibly go through the training program without some kind of benefit at the same time.

Mr. PEASE. That has been my experience, too. I am glad to have you corroborate that.

Ms. SNOWE. Absolutely. I think it is to make it a productive one. Otherwise, they will have to work in something else and they won't be able to take the time to go through the entire program and make it worthwhile.

I think that would have to be a minimum benefit.

Mr. PEASE. Thank you very much.

Chairman GIBBONS. Mr. Levin.

Mr. LEVIN. Thank you very much. I appreciate the opportunity, Mr. Chairman, to participate and to hear this outstanding testimony.

Let me ask you kind of a bottom-line question. Let's assume that we make the changes in 201 and 301 that you suggest. What are the standards for judging whether they have been effective or not?

Ms. SNOWE. The standards in the changes in the trade laws?

Mr. LEVIN. In other words, how do you judge whether any amendments to 201 and 301 are working?

Ms. SNOWE. Through experience. As I said earlier in my testimony, since I have been in Congress, which has been 8 years now, I am in my ninth year, I have worked since 1979 on these issues with four and five different industries in the State, and the recommendations I have suggested have either been included in the House or the Senate versions, or some of my own recommendations, but it is based on the experience of these industries, and frankly, I believe that we should have a fair process, and you can judge that process as to whether or not it is fair.

Mr. LEVIN. How do you do that? Let's say we make the changes that you and others have suggested in 201 and 301, and 5 years thereafter, or 3 years thereafter the trend line remains the same, or to put it another way, don't we need to set some kinds of standards, of targets, of objectives?

Ms. SNOWE. I think you can do that through the industry adjustment plan, but second, if you have to have a process, define it. I think we have a very ambiguous process as it stands now under sections 301 and 201, and certainly under the countervail and anti-dumping laws. It can go anywhere, from 200 or 265 days, and that doesn't include extension, so it is the better part of a year.

You do have to have a definable period of time. You have experts that are making the decisions when you include the International Trade Commission or the USTR, and obviously, it is going to be fundamental in terms of what their judgment is concerning these industries and whether or not they are going to be competitive at the end of the relief period, but it is necessary to have a definable period of time, tie certain provisions to the requirement of enforcement, because currently, under the trade laws, that doesn't exist in whatever case that these industries have used.

It has gone anywhere from a minimum of a year to upward of 3 to 3½ years. There is no guarantee of relief. There is no guarantee of relief in the final end of the process, because there is so much discretion available to the President to administer that relief.

Mr. LEVIN. I agree very much with your analysis. I think it is a cogent one. Let's assume that we strengthen 201 and 301. Should we not find a way to set some kinds of targets in terms of the trade imbalance, or are you willing to be contented with at this point changing the procedures and seeing where those changes lead, because as we have known, we change procedures and those on the other side of the trade battle find ways around them.

We put in new defenses, it is somewhat like defense policy, we fear. Then someone else puts in new offenses. Don't you need some kinds of targets, some kinds of objectives by which to judge whether or not the changes are effective?

Ms. SNOWE. Are you suggesting the Gephardt provision, the trade surplus?

Mr. LEVIN. Some measurement, some standard, some objective.

Ms. SNOWE. I think that that is a little bit more difficult, because you really have to be so precise in your measurement, and I am not so sure that you are going to be able to develop such a precise standard.

That is possible, but I guess I would prefer a fairer process. I think that the United States has such a guilt complex about utilizing out trade laws that we fear retaliation by other countries, if we do utilize them, but their actions are also predicated on the fact that it is not likely we will ever utilize whatever laws are available to us.

My industries are not looking for straight protection. They are looking for fairness in being able to compete on a level playing field with other countries, and that has not been the case currently. The Maine industries find that they cannot compete particularly against dumping and subsidies and major surges in imports when in fact, these are the very same countries that restrict access of our goods to their markets, so I guess I would prefer at least a fairer process, one that is definable, that has time-certain provisions, that we can be assured of enforcement, and we can be sure that this Government is going to take action.

Right now, I think that the process is virtually meaningless. It is used on a very ad hoc, inconsistent basis, and I don't think it provides any support, or gives any industry confidence to pursue this process in a good-faith manner.

Mr. LEVIN. Thank you so much for your excellent testimony.

Chairman GIBBONS. Mr. Guarini.

Mr. GUARINI. Olympia, a very warm welcome. Nine years go very quickly.

Ms. SNOWE. It is hard to believe.

Mr. GUARINI. You are a credit to your State.

Ms. SNOWE. Do I look it?

Mr. GUARINI. No. There should be some wear and tear if we have done our job right. I am certainly in agreement with you. Certainly in the bill we put through, the House last year is in agreement philosophically that we do have to do something to strengthen 201 and 301, and I agree that there are times that relief is certainly indicated.

I guess the question is whether or not we put limits on the President's discretion. Too often, the State Department desires have overruled our trade needs, so that we have put our trade industrial picture on the back burner with other geopolitical considerations.

That has been our main problem. When we were the only industrial nation standing after World War II, we were able to do that, but now we have lost 4 million jobs last year, and we must certainly do something to protect our markets, not for protectionism, but to have that competitive fair playing ground that people talk about.

I just came back from the Common Market yesterday, and the cost of shoes is almost prohibitive. There is a huge market there in the United States. The Ferrigamos and all the expensive shoe companies are doing well in the United States.

There is another advantage they have also. They have the value-added tax that they can deduct at the border, so there is a 19 or 23 percent, depending on the country, deductions and no matter what we do to be competitive so long as out tax laws, as they are will always be at that disadvantage of their being able to take off almost a quarter of the price of the product as it leaves their borders, and we are competing worldwide with that.

Another problem is the fact that we have been too generous with GSP on the low-priced shoes, where those small underdeveloping nations are now near-industrial developing nations.

I think we should take a good, hard look at that. Let me ask you, and I don't mean to put you on the spot, but have you made any decision concerning the Gephardt provision that mandates our action when it comes to surpluses with a particular country?

Ms. SNOWE. I supported H.R. 4800 last year that included that provision. Certainly, I wouldn't oppose it if it were in the legislation, but my main goal frankly in being here today is to try to reform our trade laws at the very minimum, and I realize there are a number of problems that we have to address in order to correct the trade imbalance, but I do think that one of the major issues has to be trade reform.

I know countries that certainly have taken advantage of our markets and have restricted our access to theirs, and so there should be some reciprocity involved. Whether we should mandate action in those instances is a judgment again that this committee will have to make.

I am not so certain that that is best way to go, but certainly, I would not oppose it. That is not my major priority. My major priority is creating a fair process that I can support.

Mr. GUARINI. Philosophically, you feel we must do everything to be competitive, but beyond that, there should be some consideration for reciprocity, that we get treated as we treat others?

Ms. SNOWE. Absolutely, and I have seen it over and over again. I mean, the process as currently written is totally flawed, in my opinion, and again, as I said in my testimony, it is subject to the whims of the administration, whether it is this administration, the previous one or a future one, it depends on the discretion of the President in terms of whether or not he is willing to take any action, and I don't think that we can put industry in that position.

I am also a little concerned that competitiveness will overtake the issue of trade reform, and I see those as two distinct and separate issues, but certainly compatible goals. We have to address the issue of competitiveness and improving our productivity in the marketplace.

There is no question about that, but on the other hand, the industries would like to have a fair shot, and they don't see that currently with our trade laws.

Mr. GUARINI. I agree, and especially when we politicize trade, which we shouldn't, and I think that there will be a change in our direction, and I thank you for all the support you have given our trade efforts.

Thank you.

Ms. SNOWE. Thank you.

Chairman GIBBONS. Mr. Andrews.

Mr. ANDREWS. No questions.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. Mr. Chairman, I want to thank the witness for coming in, and I have no questions.

Ms. SNOWE. Thank you.

Chairman GIBBONS. Olympia, you always do such a fine job, and I try to keep track of your particular problems up on the Canadian

border. Could you quantify for me what percent of the problems that you see are related to Canadian trade and how much of it is worldwide trade? The shoe industry, I imagine, is worldwide?

Ms. SNOWE. Worldwide.

Chairman GIBBONS. Of course, the potato industry—

Ms. SNOWE. The potato, fishing, and lumber problems are with Canada. We have textiles as well, which is a problem obviously worldwide.

Chairman GIBBONS. Are textiles a Canadian problem?

Ms. SNOWE. No, they are worldwide.

Chairman GIBBONS. We are moving at, some people say, a slow speed, some people say a glacial speed, some people say we are moving very rapidly, to work out a trade agreement with Canada. Would you or your people be willing on these trans-border problems to submit them to some kind of binding arbitration, based upon the content of the agreement, such as a Canadian participant in the arbitration, a U.S. participant in the arbitration, and a supposedly third-party neutral expert that would be brought in to solve these questions perhaps a little more rapidly than we have been able to solve them in the past.

Ms. SNOWE. Would that be part of the free trade agreement?

Chairman GIBBONS. I don't know. I am kind of kicking that around up in the air to see what you think about it. You are right there on the border. You know what the feelings of the people are.

Ms. SNOWE. I think at this point, I would have to give that some thought.

Chairman GIBBONS. I would like for you to think about it.

Ms. SNOWE. Yes, I really would, on the feelings and the tensions that do exist between Canada and the State of Maine concerning the problems of trade have been high in recent times, and my concern, for example, with the free trade negotiations with Canada, that we will not do anything to eliminate the barriers that now exist with Canadian trade, but maybe we should establish a process by which we were able to address these problems on an expeditious basis, because the State of Maine certainly has unique problems because of its proximity to Canada, and as a result, I think that we face the unique burden of the distortions that might exist in our trade.

Given the fact that Canada is obviously a very large trading partner, certainly it may be to our advantage to have some kind of established process.

Chairman GIBBONS. Suppose we have a dumping problem or a subsidy problem. The United States and Canadian laws are not a lot different, but the United States decides whether its laws have been violated and Canada decides whether its laws have been violated, and obviously, there are always going to be those who say, well, that is not fair. It is subject to political pressure within the country, and so, I can see people in Maine saying, well, you know, the Canadians did us in by deciding that there was a subsidy or there was dumping, or the people in Canada can say well, the people in Maine did us in because the United States decided there was a subsidy or a dumping.

Could these types of questions be submitted to an arbitration panel composed of part Canadians, part United States and part

third-party people, the third-party people probably being picked for each particular case, so that there would be some forum and there wouldn't be this constant alignment of the so-called neutral?

It would seem to me that that would be a far more harmonious way to solve some of these questions of fact and law than the unilateral decisionmaking process that we may have now.

I would like for you to think about that. I would like for all of our members to think about that, because there may be something that we have to do in order to get some real long-term harmony on the border.

Ms. SNOWE. You make an excellent point, Mr. Chairman. I certainly will give that consideration, and I will talk with members of the industry that are affected by Canadian trade. I know we have a United States-Canadian advisory group that works sort of not at resolving problems, but more in identifying ways by which they can come up with some solution.

Chairman GIBBONS. That is right, and that works up to a point.

Ms. SNOWE. To a point.

Chairman GIBBONS. That was a good solution 100 years ago, but there is no finality. As you say, it just goes on and on and on. I believe most of these decisions should be made in accordance with law, in fact all of them in accordance with law, and that they ought to be made expeditiously.

You have the ability to determine the facts and the law accurately, we ought to be able to dispose of these things in a rapid manner. I have made efforts in the trade laws to try to speed up the process, but every time I try to speed up, I hear my committee members say oh, we are denying everybody due process.

I think we have probably got the speed at about as fast a pace as you can make it as complicated a law as we now have.

Mr. GUARINI. Will the chairman yield? Is the chairman referring to the possibility of a Common Market for North America?

Chairman GIBBONS. I don't want to go that far. That would be awfully complicated. It would scare so many people. I think because the Canadian system of jurisprudence and the U.S. system of jurisprudence are so similar, and there is so little language barrier, and we have so many things in common, that perhaps we can work out with our Canadian friends something that is more harmonious than we could with others, and that is why I asked that of one of the persons who is constantly on the firing line between the United States and Canadian issues.

Certainly, Ms. Snowe is, and she does an excellent job in bringing to us her poise and her convictions at the same time.

Ms. SNOWE. I appreciate that, Mr. Chairman, and I will talk to the industry in Maine to see whether or not that might be a preferable alternative to resolving some of the problems. It sounds like it certainly would, because at least we would guarantee in dealing with these problems in an expeditious way at the same time establishing our strong ties with Canada.

Chairman GIBBONS. Please time me, too. Let's go to the next panel of witnesses.

Ms. SNOWE. Thank you very much.

Chairman GIBBONS. The next panel is the U.S. Chamber of Commerce, Basic Industries Coalition, Emergency Committee for American Trade, and American Association of Exporters and Importers.

Mr. Archey, we will hear from you first.

**STATEMENT OF WILLIAM T. ARCHEY, VICE PRESIDENT,
INTERNATIONAL, U.S. CHAMBER OF COMMERCE**

Mr. ARCHEY. Thank you, Mr. Chairman. It is a pleasure to appear before this committee.

Chairman GIBBONS. Everybody's statements will be put in the record in full.

Mr. ARCHEY. I would also like to state before giving a brief synopsis of my prepared testimony, it is a pleasure for me to appear for the first time before this committee as a member of the private sector. I have appeared before this committee on a number of occasions in my capacity as the Deputy Commissioner and Commissioner of Customs back in the late seventies and early eighties, and more recently, prior to joining the chamber, as Assistant Secretary of Trade Administration at the Commerce Department.

Mr. Chairman, we at the chamber applaud the thoroughness with which you and the committee are addressing the complex issue of American trade performance and our economic competitiveness. We are pleased with many of the constructive suggestions recommended in H.R. 3, but we do have some serious problems with certain other provisions.

The U.S. Chamber has basically three objectives for its international program and for the work of its international policy committee.

They are, one, to improve the ability of U.S. firms to compete internationally by pressing for the elimination of foreign tariff and nontariff barriers to U.S. trade and investment.

Two, to improve the ability of U.S. companies to compete effectively abroad by eliminating domestic disincentives to U.S. international business performance while actively proposing and supporting policies for export promotion.

Three, to improve the ability of U.S. firms to compete domestically by providing effective domestic recourse to foreign unfair trade practices and injurious imports, while ensuring U.S. consumers access to fairly traded goods and services.

We view H.R. 3 as a starting point toward those objectives. The chamber itself feels that constructive trade legislation this year can contribute significantly to correcting some of our trade-related problems. We are also realistic about what it can or cannot do.

There are many major macroeconomic issues such as the budget deficit, Third World debt, exchange rate instability, and growth rate differentials among industrial nations that present serious problems, and which are not amenable to solution necessarily through trade legislation.

However, the Chamber of Commerce does feel that the new trade legislation could have a positive impact on America's international competitiveness. In that regard, H.R. 3 includes a number of positive provisions which we feel are consistent with our objectives, including strengthened telecommunications market access provisions,

strengthened intellectual property rights protection, and new trade agreement negotiating authority; although we don't agree totally with it, we basically agree with the thrust of mandatory retaliation against foreign unfair trade practices, particularly if they violate a trade agreement, clarification of the Foreign Corrupt Practices Act, and the improved procedures for the Export-Import Bank.

We also feel that the bill has a number of objectionable provisions, one of which is the Gephardt amendment which would mandate U.S. retaliation on the basis of unilateral determinations that other countries trade surpluses are excessive and unwarranted.

We feel that this amendment would likely violate U.S. GATT obligations, provoke swift retaliation, probably rise prices, and ultimately reduce the trade opportunities for U.S. companies. We also would oppose the inclusion of internationally recognized worker rights as a condition to be considered by the administration in taking retaliatory action.

Mr. Chairman, I would just quickly would like to mention, to give you a quick view of several of the more important sections of H.R. 3. First is section 301. The chamber strongly supports effective use of section 301 to achieve the elimination of foreign barriers to U.S. trade and investment.

We have applauded the U.S. administration's recent actions under section 301 to improve U.S. access to foreign markets. In our view, these actions represent an important beginning of a newly assertive U.S. trade policy, that will send a message to our trading partners that the United States will no longer play the fool while other nations unfairly reap the benefits of world trade.

However, as useful as these actions may have been, the Chamber of Commerce feels that they have not been enough. As powerful a statute as section 301 is, it does not provide sufficiently certain recourse against certain foreign unfair trade practices.

For this reason, the chamber strongly supports those provisions of H.R. 3 which would mandate retaliation against foreign trade practices that violate international trade agreements.

The chamber has recently conducted an analysis of section 301 enforcement since its implementation beginning in 1975. We are also surveying, sending a survey out to all companies and associations which have submitted a section 301 petition since 1975.

We are looking at both of these to assess whether or not further improvements or changes in section 301 may be warranted.

We also note, Mr. Chairman, that under section 301 and under H.R. 3, injurious export targeting practices would be a new part of section 301, and the chamber supports that. As I have mentioned, we do, however, oppose the international workers' rights as an actionable practice, and we have serious problems with many of the aspects of the Gephardt amendment, because we feel that the definition of things such as unwarranted practice is in itself so vague that it could invite retaliation from other nations which are not engaged in so-called unwarranted practices.

Under section 301, the chamber endorses many of the changes being recommended within H.R. 3. We particularly endorse reforms which will require the ITC to estimate the effects of relief on U.S. consumers and domestic competition, and we also think that

effort should be made to strengthen the link between relief granted and the action taken toward industry adjustment.

We, however, do have one point on the issue of trade adjustment assistance. We do endorse the proposal of the President under the competitiveness package in their 1988 budget proposal, which is to take the trade adjustment assistance program and combine it into one overall program funded at almost the \$1 billion level that would be called the worker adjustment program.

We feel that the TAA program is duplicative and does not adequately stress worker retraining, and has instead, in fact, emphasized income maintenance alone.

On the antidumping and countervailing duty statutes, we feel that the diversionary dumping in particular has increasingly been a cause for concern to industries injured by such unfair practices.

While legislative solutions to this problem may be constructive, they are extremely difficult to administer. The chamber's international policy committee has sought to address this issue. Quite frankly, it had a very difficult time coming up with a constructive, rational approach, but it does recommend that this issue be addressed in multilateral trade negotiations.

The complexity involved in defining diversionary dumping requires cooperation with our trading partners and avoidance of premature unilateral solutions which may be in violation of our obligations under GATT.

On the right of private action which is also receiving considerable attention, the chamber has taken no position, though it does recognize the fact that antidumping and countervailing duty investigations are not punitive statutes, either in our domestic law or multilateral codes.

Again, our international policy committee is presently addressing this issue, and we will have a position shortly.

On section 337 of the Tariff Act, the chamber strongly endorses all of the provisions of H.R. 3. On section 232, the Trade Expansion Act of 1962, H.R. 3 would shorten it from 1 year to 90 days, with one 90-day extension, the deadline for completion of the Commerce Department investigations under section 232.

The chamber would oppose that provision, and I might add a personal note, Mr. Chairman, having administered the section 232 law under the national security aspects of trade. I can tell you that 90 days for some very complicated 232 petitions is not going to be adequate time.

I think the problem that the committee is trying to address is something that we are very sympathetic to, and I personally am, which is the issue that if an investigation is completed, that some action either up or down be taken based on that petition.

I think the concern came out of the machine tool case, which basically sat around for 2 years. But I think if the committee is going to put emphasis on the 232 aspect, it should not focus on the item for investigation, but rather on the requirement that pursuant to the completion of the investigation, that a decision be made, whether we would quarrel, whether it might compel the President to have to take action, but at least the President should, in fact, make some decision based on what the investigation notes.

On the telecommunication products and services, the chamber strongly supports most of the provisions for telecommunications access with the one exception being that we do not agree with the provision that mandates the President to retaliate if no agreement is reached as a result of the negotiations.

On the trade negotiating authority, we agree with most of the provisions. We think, though, that the administration probably should be given negotiating authority for tariff and nontariffs beyond the January 3, 1989, deadline, and we also would oppose the notion that there would be compulsory trade and negotiating objectives imposed on the President when he goes to the GATT.

Finally, we also support the provision of the bill which extends our negotiating authority for 5 years. And my last point, Mr. Chairman, because of your point, I would note to you the U.S. Chamber of Commerce has under its egis the Committee on Canada-United States Relations which is, in fact, rather aggressively seeking to develop a concept very much along the lines you have just talked about, which would be a dispute settlement mechanism, if you will, between Canada and the United States; it would have private members of both countries and, in fact, a third party neutral to decide those, and we think that there is still considerable potential for that idea to be surfaced and be seriously entertained by this committee, by the administration, and by the business community. So, I thought beyond my prepared statement I should note that.

Thank you for your attention, Mr. Chairman.

[The statement of William T. Archey follows.]

STATEMENT
on
THE TRADE AND INTERNATIONAL ECONOMIC POLICY REFORM ACT OF 1987
before the
SUBCOMMITTEE ON TRADE
of the
HOUSE COMMITTEE ON WAYS AND MEANS
for the
U.S. CHAMBER OF COMMERCE
by
William T. Archey
February 18, 1987

Mr. Chairman and Members of the Subcommittee, I am William T. Archey, Vice President, International, of the U.S. Chamber of Commerce.

We appreciate the opportunity to testify on H.R. 3, the Trade and International Economic Policy Reform Act of 1987. We applaud the thoroughness with which you are addressing the very complex issue of American trade performance and our economic competitiveness. While we are pleased with many of the constructive suggestions you have recommended in this legislation, we do have serious problems with certain other provisions. And may I add that we especially appreciate the cooperation of both members and staff in working with the U.S. Chamber as well as our 56 affiliated American Chambers of Commerce abroad.

As you requested, my testimony today will focus on Titles I and II of H.R. 3. But there are many other important elements in this measure, and I have included a summary of the Chamber's current position on a host of these provisions as an attachment to this statement.

The U.S. Chamber believes there are three basic objectives to the formulation and execution of international trade policy. They are:

1. To improve the ability of U.S. firms to compete internationally by pressing for the elimination of foreign tariff and non-tariff barriers to U.S. trade and investment.
2. To improve the ability of U.S. companies to compete effectively abroad by eliminating domestic disincentives to U.S. international business performance while actively proposing and supporting policies for export promotion.
3. To improve the ability of U.S. firms to compete domestically by providing effective domestic recourse to foreign unfair trade practices and injurious imports, while ensuring U.S. consumers access to fairly traded goods and services.

We view H.R. 3 as a starting point towards achieving these objectives. The Chamber of Commerce has taken the above objectives and defined a detailed program for accomplishing them. We have recently restructured its International Policy Committee to focus on these objectives, and have formed three separate subcommittees, each of which is responsible for one of the objectives.

Mr. Chairman, the enactment of constructive trade legislation this year can contribute significantly to correcting some of our trade related problems. But we must be realistic as to what it can and cannot do. There are major macroeconomic issues, such as the budget deficit, third world debt, and growth rate differentials and exchange rate instability among the industrialized nations, that present serious problems which are not amenable to solution through trade legislation.

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However, the Chamber of Commerce does feel that there is a need for trade legislation that could have a positive impact on America's international trade competitiveness. New trade legislation as well as the aggressive implementation of existing trade law can provide important incentives for U.S. business to export, remove disincentives to export, and aggressively combat the unfair practices of our trade partners without becoming protectionist.

In fact, on January 16, U.S. Chamber Chairman Edward Donley wrote the President, urging him to work with the Congress in the development of constructive trade legislation. He also made some specific suggestions, which are included in his letter, a copy of which is attached.

In that regard, H.R. 3 includes a number of positive provisions which are consistent with our objectives, including:

- o strengthened telecommunications market access provisions;
- o strengthened intellectual property rights protection;
- o new trade agreement negotiating authority;
- o mandatory retaliation against foreign unfair trade practices;
- o clarification of the Foreign Corrupt Practices Act;
- o improved procedures for the Export-Import Bank.

However, the bill also includes a number of objectionable provisions which would undermine our position in the world trading system. Two of those provisions would include:

- o The so-called "Gephardt amendment", which would mandate U.S. retaliation on the basis of a unilateral determination that other countries' trade surpluses are "excessive and unwarranted." This amendment would likely violate U.S. GATT obligations, provoke swift retaliation, probably raise prices and could create shortages in affected sectors and ultimately reduce trade opportunities for U.S. companies.
- o Inclusion of "internationally recognized workers' rights" (such as rights to association, organization, collective bargaining, prohibition on forced or compulsory labor, minimum employment age, and "acceptable conditions" with respect to minimum wages, work hours and occupational safety and health) as a condition to be considered by the Administration in taking retaliatory action; such a condition is highly arbitrary and would be unworkable.

Mr. Chairman, let me now turn to a more detailed discussion of some of the major provisions of H.R. 3 as they appear in the bill, and the Chamber's view of each.

Section 301 (of the Trade Act of 1974)

The Chamber strongly supports effective use of Section 301 to achieve the elimination of foreign barriers to U.S. trade and investment. Even though such barriers constitute a relatively small share of our trade deficit, their persistence reflects a widespread belief among our trading partners that the United States is reluctant to do what needs to be done to protect its legitimate interests in a fair and open trading system. Furthermore, many of our members, including some of our most successful exporters, complain that other countries exclude U.S. access to their markets knowingly and in violation of bilateral and multilateral trade agreements, but with little fear of adverse U.S. government action.

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We applaud the U.S. administration's recent actions under Section 301 to improve U.S. access to foreign markets. In our view, these actions represent an important beginning of a newly assertive U.S. trade policy that will send the message to our trading partners that the U.S. will no longer play the fool while other nations unfairly reap the benefits of world trade. However, as useful as these actions may have been, they are not enough. As powerful a statute as Section 301 is, it does not now provide sufficiently certain recourse against foreign unfair trade practices. For this reason, the Chamber strongly supports those provisions of H.R. 3 which would mandate retaliation against foreign trade practices that violate international trade agreements. At the same time, the Chamber has performed an analysis of Section 301 enforcement in which we have examined the timeliness and outcomes of investigations and dispute settlement efforts undertaken under that law. In addition, the Chamber is currently surveying those companies and other organizations that have filed Section 301 petitions. The results of that survey will help us to determine whether additional changes regarding timetables, administrative discretion or other matters are warranted. We expect to reach some preliminary conclusions early in March.

H.R. 3 defines three new practices as actionable under Section 301: injurious export targeting, violations of internationally recognized workers' rights, and toleration of cartels. The Chamber supports use of Section 301 as a vehicle for responses to injurious export targeting. We oppose including denial of "internationally recognized workers' rights" as an actionable practice. The U.S. itself has not ratified any of the International Labor Organization (ILO) conventions which correspond to these proposals; unilateral establishment of such a standard in trade law is not only arbitrary, but adds new ambiguity to the trading system which could also invite retaliation from countries who view their own labor standards as superior to our own.

H.R. 3 would require retaliation against countries maintaining "excessive and unwarranted" trade surpluses with the United States if bilateral negotiations to reduce those surpluses failed to reach specific results within a specified time period. We note that there are "waiver" provisions which include reference to debtor nations and the U.S. "national economic interest". Nonetheless, the Chamber opposes this provision. First, the definition of an "excessive" trade surplus (a non-petroleum export/import ratio of 175%) is arbitrary. Such a ratio may simply reflect a nation's comparative advantage and could exist without the perpetration of an "unwarranted" trade practice. The definition of "unwarranted" practices is itself so vague that it would invite retaliation against other nations which are not engaged in "unwarranted" practices but have competitive, trade-oriented industries. Such U.S. retaliation could easily lead to counterretaliation against U.S. industries that are not engaged in unfair trade practices.

Section 201 (of the Trade Act of 1974)

The Chamber continues to support the use of fair trade statutes to provide temporary relief to seriously injured domestic industries. We encourage the Congress to ensure that revisions to the current statute retain the legislative intent of industry adjustment and that the granted relief should be temporary in order to facilitate this adjustment to import competition.

The Chamber endorses reforms which require the ITC to estimate effects of relief on U.S. consumers and domestic competition; this should allow the President to more effectively consider the tradeoffs between providing relief to the injured industry and the resulting costs to other elements of the economy.

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Efforts to strengthen the link between relief granted and action taken toward industry adjustment are also important and constructive. Proposed reform in H.R. 3 to establish procedures for an industry adjustment advisory group to prepare an industry adjustment plan are unlikely to result in the group's collective agreement on an adjustment plan within the limited statutory deadlines. Furthermore, the Chamber has serious reservations about the advisory group, as it may be the precursor of an industrial policy giving government a greater involvement in economic decision making.

H.R. 3 would provide for expedited consideration of Trade Adjustment Assistance (TAA) petitions and establish a Trust Fund financed by tariff revenues and auctioned quotas to fund retraining programs under TAA. The Chamber believes that one consolidated program for all displaced workers should be established, and in this vein, supports the President's recently proposed worker adjustment program.

We feel that the TAA program is duplicative, does not adequately stress worker retraining, and has instead emphasized income maintenance alone. We have also been opposed to the imposition of additional import fees to fund such programs; such measures would be GATT inconsistent.

Antidumping and Countervailing Duty Statutes (Tariff Act of 1930)

The Chamber recognizes the seriousness of persistent dumping and subsidy practices by foreign trading partners.

Diversionsary dumping, in particular, has increasingly been the cause of concern to industries injured by such unfair practices. While legislative solutions to this problem could be constructive, they would be extremely difficult to administer. The Chamber's International Policy Committee sought to address this issue, and while it could not agree on a constructive, rational approach, it did recommend that this issue be addressed in

multilateral trade negotiations. The complexity involved in actually defining "diversionary dumping" requires cooperation with our trading partners and avoidance of premature, unilateral solutions which may be in violation of our obligations under the GATT.

The right of private action has also received considerable attention in the current trade debate. While the Chamber has formally taken no position on this issue, we do recognize the fact that antidumping and CVD investigations are not punitive statutes, in our domestic law nor in the multilateral codes. The International Policy Committee is presently addressing this issue and will have a position shortly.

H.R. 3 also establishes natural resource pricing practices as subsidies if not available to U.S. firms at the same price as it is to the other country's domestic firms. The Chamber takes no position on this issue.

Section 337 (of the Tariff Act of 1930)

With intellectual property piracy costing U.S. companies an estimated \$8 billion to \$20 billion a year, the Chamber is committed to modernizing applicable laws. We support the key House provisions in H.R. 3, which address this issue.

Section 337 of the Tariff Act of 1930 presently gives the International Trade Commission (ITC) the general power to exclude imports when the importer engages in "unfair methods of competition or unfair acts." The law has been used to restrict importation of pirated products, but it needs to be strengthened by eliminating the injury test. The law was not designed specifically to protect intellectual property rights; rather it requires a complaining party to show that the imports threaten an efficient and economically operated domestic industry with destruction or substantial injury, only then can relief be granted. We support the removal of such an injury test; that the articles infringe a patent or are made abroad by the unauthorized use of a process that is patented here should be sufficient reason for exclusion.

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We also support a change in the law that would require the ITC to act promptly on requests for relief, pending the final resolution of a complaint. In cases in which a key shipment of infringing goods is en route or a critical selling season is approaching, the failure of the ITC to act promptly inflicts harm on the intellectual property owners that is not easily remedied.

Section 232 of the Trade Expansion Act of 1962 (Imports Affecting National Security)

H.R. 3 would shorten from one year to 90 days, with one 90 day extension, the deadline for completion of Commerce Department investigations under Section 232 (pertaining to imports which allegedly threaten national security). In addition, the time period for a Presidential decision with respect to the results of the investigation would be limited to 30 days after receiving the report of the Secretary of Commerce. The Chamber strongly opposes this provision. As someone very familiar with the investigation process under Section 232, I can tell you that 90 days is far too short a period in which to make an adequate factual determination. We understand the committee's concern over the problems associated with enforcement of Section 232, but the issue is to require the President to make a decision, not the length of time it takes to complete an investigation. In our view, the bill should limit its changes to requiring the President to act, one way or the other, within a reasonable time from receipt of the 232 investigation report.

Telecommunications Products and Services

We support most features of the telecommunications provisions of H.R. 3, which we believe will go a long way towards solving many of the problems in this industry. These include: Giving a strong Congressional mandate to the President to negotiate multilateral and bilateral agreements that would provide fully competitive opportunities to worldwide telecommunications markets; establishing reasonable standards by which equivalent market access is determined; authorizing the President to offer incentives to other countries to reduce their trade barriers; including access of U.S. foreign subsidiaries in judging overall access to these markets; enabling the President to investigate individual company grievances when appropriate petitions are filed; mandating the President to monitor the results of negotiated agreements or self-initiated liberalization; relying upon existing divisions of responsibilities among federal trade agencies; and being compatible with the General Agreements on Tariffs and Trade (GATT).

We do oppose the provision of the section that mandates the President to retaliate if no agreement is reached as a result of negotiations.

Revision of Standards Applicable to Nonmarket Economies (Market Disruption)

The U.S. business community generally agrees that current antidumping law regulating nonmarket economy (NME) imports is grossly inadequate. The surrogate country/constructed value approach for determining dumping from NMEs has created tremendous confusion on the part of government regulators, importers, and domestic industry alike. In addition, Section 406 of the Trade Act of 1974 has not been a useful tool in the present import administration process.

We believe that both laws should be replaced by a single new law that permits an industry or sector within an otherwise NME to be judged market-oriented for purposes of antidumping duty investigations if, for example, that industry or sector is able to function reasonably independently of state control in establishing production levels and product price determinations.

The Chamber maintains that there is no equitable and predictable way for measuring the fair market value of NME imports. As such, the Chamber believes that an injury determination should be the sole requirement for import relief in the case of NME products.

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Under our proposal, if the ITC finds injury, the Office of the USTR would be empowered to negotiate within a reasonable period an arrangement with the NME, through price increases and/or quotas, to remedy the injury. If the USTR fails to reach such an arrangement with the NME, the USTR still would have the authority to recommend the ITC a remedy for domestic industry.

Trade Negotiating Authority

We are pleased that the GATT signatories agreed to a new round of multilateral trade negotiations at Punta Del Este last September. We are encouraged by the success of our negotiating team in having such issues as intellectual property, services, agriculture, and investment included in the forthcoming Uruguay Round.

In general, we agree with most of the provisions in H.R. 3 with respect to trade negotiating objectives and authority. In general terms, we support the negotiating objectives in the bill, the extension of tariff and nontariff negotiating authority, as well as fast track authority.

However, we oppose that provision which makes such negotiating objectives mandatory for our negotiators; and we also oppose the concept of forcing the President to convene an international monetary conference before the United States can proceed to negotiate nontariff barriers.

You may be interested in our priorities, which are: (1) to strengthen the disciplines of the international trading system, and to seek further reductions of nontariff and tariff barriers, we must review issues such as Most-Favored-Nation Treatment, permissive customs unions and free trade areas, safeguards, dispute settlement, and government intervention in trade; (2) to examine GATT machinery and the role of its Secretariat in order to improve its performance; (3) to help GATT adapt to the emerging needs of services, investment and intellectual property rights and agricultural issues; (4) to review the linkages between trade and monetary matters; (5) to assist developing countries to assume a more active and responsible role within the world trading system; (6) to secure maximum public support in order to improve present trading rules and institutions and to provide directions for solutions to other new or yet-to-emerge problems; and (7) to seek renewed Presidential negotiating authority from the U.S. Congress.

Finally, we also support that provision of the bill which extends our negotiating authority with Canada for five years.

Mr. Chairman, that concludes my statement. I will be glad to respond to your questions.

TRADE AND INTERNATIONAL ECONOMIC POLICY REFORM ACT OF 1987

Comparison of Major Provisions

H.R. 3 Provision

U.S. Chamber of Commerce Position

TITLE I--TRADE LAW AMENDMENTS

Subtitle A. Enforcement of United States Trade Agreements Rights and Response to Certain Foreign Trade Practices

SECTION 301 (Trade Act of 1974): UNFAIR TRADE PRACTICES

- | | |
|---|---|
| o Transfers authority to initiate Section 301 cases from President to U.S. Trade Representative (USITR); President retains final decision-making authority. | o Opposes transfer of Section 301 decision-making authority from President to USITR. |
| o Makes Section 301 retaliatory action mandatory if foreign countries violate an international agreement or commit other "unjustifiable" practices; Retaliatory action against "unreasonable" or "discriminatory" practices remains discretionary. ^a (Mandatory action may be waived under certain circumstances, including likely adverse impact on U.S. "national economic interest"). | o Opposes mandatory retaliation except in cases of trade agreement violations. Supports waiving action if retaliation adversely affects other U.S. interests. |
| o Requires considering impact of Section 301 actions on U.S. agricultural exports (counterretaliation). | o No position. |
| o Makes denial or elimination of Generalized System of Preferences benefits an option for Presidential action. | o No position. |

Definitions:

Unjustifiable: refers to acts, policies, or practices which violate or are inconsistent with U.S. international legal rights, such as denial of national or most-favored-nation treatment, right of establishment, or protection of intellectual property rights.

Unreasonable: refers to any act, policy, or practice which, while not necessarily in violation or inconsistent with international legal rights of the United States, is otherwise deemed to be unfair and inequitable.

Discriminatory: includes, where appropriate, any act, policy, or practice which denies national or most-favored-nation treatment to U.S. goods, services, or investment.

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- o Adds three new practices as subject to Section 301 action: injurious export targeting (retaliation is mandatory), violations of internationally recognized workers rights, and toleration of cartels. o Supports use of Section 301 as vehicle for responses to "targeting", but opposes mandatory retaliation unless a trade agreement has been violated. Opposes denial of internationally recognized workers' rights as basis for 301 action; no position on toleration of cartels as basis for 301 action.
- o Requires USTR to self-initiate Section 301 cases if information in annual "National Trade Estimates" (nontariff barriers) report meets certain criteria. o No position.
- o Requires Section 301 case initiation if bilateral trade surpluses are "excessive and unwarranted"; calls for bilateral talks on measures to reduce surpluses by 10% per year and mandatory retaliation if talks (or measures) fail. There are waiver provisions. o Opposes mandatory retaliation in absence of a trade agreement violation.

Subtitle B: Relief From Injury Caused by Import Competition,
Subsidies, Dumping, and Unfair Trade Practices

SECTION 201 (Trade Act of 1974): IMPORT RELIEF UNDER THE "ESCAPE CLAUSE"

- o Transfers decision-making authority from the President to USTR. o No position, although opposes transfer under Section 201.
- o Sets up procedures for Industry Adjustment advisory group to prepare industry adjustment plan, which International Trade Commission (ITC) would consider in its deliberations. o Opposes adjustment plan concept as unworkable and unrealistic given limited statutory deadlines in Section 201 cases.
- o Requires ITC to estimate the effect of 201 action on domestic competition and on consumer. o Supports such consideration.
- o Provides temporary relief for perishable products cases, provisional relief when there are critical circumstances. o No position.

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- | | | | |
|---|--|---|--|
| o | Expedites consideration of Trade Adjustment Assistance (TAA) petitions. | o | Opposes TAA as duplicative of other programs. |
| o | Establishes TAA trust fund from revenues of tariffs or auctioned quotas to fund retraining programs under TAA. | o | No position on Trust Fund; opposes additional tariffs to fund TAA. |

SECTION 406 (Trade Act of 1974): MARKET DISRUPTION (NONMARKET ECONOMY IMPORTS)

- | | | | |
|---|--|---|---|
| o | Effectively lowers standards for determining market disruption due to nonmarket economy (NME) imports. | o | Supports injury test as sole basis for relief from NME imports. |
| o | Transfers authority for final decisions from the President to USTR. | o | No position, although opposes transfer under Section 301. |

COUNTERVAILING DUTY AND ANTIDUMPING STATUTES (Tariff Act of 1930)

- | | | | |
|---|--|---|--|
| o | Sets up procedures for diversionary dumping cases, when product, subject to U.S. dumping order is dumped in third country, then further processed and exported to the United States. | o | No position on legislative proposals. Supports negotiations to cover diversionary dumping under multilateral agreements. |
| o | Special provision for processed agricultural products here looking at relation between unprocessed and related processed imports. | o | No position. |
| o | Makes certain strictly domestic financing practices clearly subsidies under countervailing duty law. | o | Opposes definition of strictly domestic preferential financing practices as a countervailable subsidy. |
| o | Allows civil suits in Court of International Trade for damages due to dumping. | o | No position. |

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o Prohibits refunding under duty drawback of antidumping/countervailing duties. o No position.

o Makes natural resource pricing practices subsidies if not available to U.S. firms at same price as to country's domestic firms. o No position.

SECTION 337 (Tariff Act of 1930): INTELLECTUAL PROPERTY RIGHTS

o Accelerates timetable and expands authority for ITC to act on intellectual property rights. o Supports shorter time period for determination by ITC on whether to issue temporary exclusion orders.

o Removes requirement to prove injury in intellectual property rights cases. o Supports use of infringement as sole basis for injury determination.

o Gives USITR final decision-making authority, now with the President. o No position, opposes transfer under Section 301.

TRADE NEGOTIATIONS

o Extends tariff negotiating authority until January 3, 1989, with provision for three year extension. Maximum 60% unless present duty is 5% or less. Maximum increase of 20%. Any changes for items not on GSP list would have to be approved under "fast track" by Congress. o Supports extended tariff and nontariff negotiating authority. Opposes any significant restrictions on President's negotiating authority, including linkage to proposed international monetary conference.

Nontariff barrier negotiating authority has same term extension as tariff authority; but cannot be used until international monetary conference is convened, or President convinces Congress a conference cannot be held.

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- 0 Five year authority for bilateral talks with Canada 0 Supports.
on tariff cutting.
- 0 Negotiating objectives include: (a) disoute
settlement; (b) services; (c) agriculture;
(d) natural resources; (e) LDC graduation;
(f) intellectual property (g) escape clause
procedures (safeguards); (h) tackling problem of
countries with consistently large trade surpluses;
(i) coordination of international trade and
monetary policies; (j) investment; (k) rules on
workers rights; (l) countertrade.
- 0 Provides compensation authority for trade
restrictions that violate GATT. 0 No position.

Subtitle E: Miscellaneous Trade Law Provisions

SECTION 232: NATIONAL SECURITY CASES

- 0 Shortens to three months, with one three month
extension, time period for Secretary of Commerce
Investigation. Also limits time period for
President's decision. 0 Opposes.
- 0 Sets up office in USITR that would in essence serve
as lawyer in countervailing duty, antidumping and
Section 337 cases for firms that don't have
resources to handle case on own or fear foreign
repercussions. 0 No position.

FAIR TRADE ADVOCATES BRANCH

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TITLE II--INTERNATIONAL TRADE IN TELECOMMUNICATIONS PRODUCTS AND SERVICES

- o Requires bilateral negotiations to open up markets of countries USTR determines do not provide U.S. firms equal market access. o Supports.
- o Mandates Presidential market action to guarantee reciprocal access for telecommunications products if negotiations fail. o Opposes mandatory Presidential retaliation, if no agreement is reached.
- o Provides compensation authority if the United States takes action not legal under GATT. o Supports.

TITLE III--EXPORT ENHANCEMENT

Subtitle A: Export Promotion

- o Provides statutory authority for U.S. & Foreign Commercial Service. o Supports in principle.
- o Establishes a Market Development Cooperator Program in the Commerce Department, patterned on Agricultural Department program that is designed to increase exports. o Supports in principle.
- o Reaffirms statement in 1985 Farm Policy calling for strong agricultural trade policy. (Other agricultural provisions incorporated in Title VI.) o Supports in principle.
- o Reaffirms support of Eximbank. o Supports in principle.

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Subtitle B: Export Controls

- o Expands statutory conditions on and Congressional review of North slope crude oil exports. o No position.
- o Authorizes use of distribution licenses for multiple exports to the PRC. o No position. (Supports in principle.)
- o Eliminates licensing requirements for reexports of U.S. goods among COCOM countries and for U.S. parts and components, incorporated in foreign-made products, under certain levels. o No position. (Supports in principle.)
- o Eliminates licensing requirements for low technology items (those requiring only notification under COCOM rules) to all free world countries. o No position. (Supports in principle.)
- o Requires the Secretary of Commerce to review portions of the Commodity Control List quarterly, with entire list reviewed annually. Requires the Secretary of Defense to review Militarily Critical Technologies List on an on-going basis. o No position.
- o Requires the Secretary of Commerce, working with the Department of Defense, to suggest to Congress and COCOM removal of items amounting to 40% of the list. Implemented over a three year period. o No position.
- o On foreign availability, expands definition to allow for decontrol on country-by-country basis if country in question has comparable controls. Redefines availability in fact to cover goods not controlled or where controls are ineffective for other countries. o No position. (Supports in principle.)

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- o Requires inclusion of industry reps on U.S. delegation to COCOM for purposes of list review. o No position.
- o Prohibits Customs Service from detaining or seizing for more than ten days goods determined by the Secretary of Commerce to be eligible for export under General License. o No position. (Supports in principle.)
- o Authorizes \$5 million for the Office of Export Administration at Commerce above requested level. o No position.
- o Requires General Accounting Office (GAO) report on Defense Department review of licenses to non-COCOM countries. o No position.

Subtitle C: Debt, Development and World Growth

- o Requires negotiations on macroeconomic policy coordination and economic growth. o Opposes mandatory negotiating initiatives.
- o Requires Treasury Secretary to issue report on efforts to stabilize exchange rates. o No position.
- o Calls for trade liberalization in LDCs, maintains comparative advantage principles, opposes investment in surplus or injurious commodities. o Supports.
- o Says foreign aid shall be consistent with long-term trade liberalization policies of recipients. o Supports.
- o Overseas Private Investment Corporation (OPIC) reaffirms support for, permits staff increase, authorizes increase in loan guarantee ceiling from \$150 to \$200 million and increase in direct investment finance from \$15 million to \$25 million. o Supports retention of OPIC programs. No position in funding authorization changes.

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- o Increases World Bank lending resources. o Supports in principle as part of Program for Sustained Growth, along with economic policy reforms in recipient nations.
- o Trade and Development Program, reaffirms support and increases authorization from \$20 to \$25 million. o No position. (Supports in principle.)
- o Sets up an interagency group, chaired by Commerce, to determine how countertrade might help A.I.D. programs and export opportunities. o No position.

INTELLECTUAL PROPERTY RIGHTS PROVISIONS

- o Makes intellectual property a priority issue, calls for International Development to use funds to train foreign government officials in related enforcement activities. o Supports. (Sense of Congress language.)

TITLE IV--BANKING COMMITTEE PROVISIONS

- o Calls for international conference on monetary reform and exchange rates, and active intervention in foreign currency markets. Establishes strategic currency reserve. o No position.
- o On multilateral development banks, calls for expedited loan activity, urging World Bank shares of projects, more structural adjustment lending by World Bank, changing gearing ratio from 1:1 to 2:1 for World Bank lending, more participation in cofinancing, and tying lending to trade liberalization. o Supports in principle as part of Program for Sustained Growth (Baker initiative); no position on specifics.
- o Capital flight, tying aid to trade liberalization, purchasing oil from major debtors for strategic reserves, study easier writeoffs for loans. o Supports in principle.

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- o Expresses support for Multilateral Investment Guarantee Agency, new arm of World Bank to provide investment risk insurance. 0 Supports participation in and contribution to MIGA.
- o Strengthens existing U.S. mixed credit program by establishing that AID may use Economic Support Funds for mixed credits; provides that the National Advisory Council may approve financing by majority vote. 0 Supports.
- o Sets up Council on Industrial Competitiveness with reps from government, business, labor and academia to develop strategies for U.S. competitiveness. Will issue report and recommendations within one year. \$25 million authorized. 0 Opposes Council on Industrial Competitiveness as a form of national industrial policy.

TITLE V--EDUCATION AND TRAINING FOR AMERICAN COMPETITIVENESS

EDUCATION PROVISIONS

- o Creates two new grant programs for state agencies and for universities. Programs focused on literacy, vocational education, mathematics education, science and languages. \$400 million in funds authorized per year. 0 Supports strengthened educational programs. Opposes new federal funding.

TRAINING PROVISIONS

- o Three new programs under Job Training Partnership Act (JTPA) and job bank. Would provide grants to agencies helping workers affected by imports, including assistance for training, counseling, relocation. Eligibility based on industry, not specific firm injury. Also gives grants to labor-management committees on retraining and has pilot retraining voucher program. 0 Opposes new JTPA programs as duplicative of existing programs. No position on voucher program.

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TITLE VI--AGRICULTURAL TRADE

- o Calls for organization of Agricultural Department with respect to trade policy for farm products. o Supports.
- o Calls for long-term trade strategy reports at regular intervals. o Supports.
- o Requires report on relation of food aid to market development, plus sets up new Food Aid Policy office. o Supports.

TITLE VII--FOREIGN CORRUPT PRACTICES, ADJUSTMENT PLAN REVIEW AND TEXTILE IMPORT ADJUSTMENTSFOREIGN CORRUPT PRACTICES PROVISIONS

- o Establishes new culpability standard, eliminating "reason to know" standard and replacing it with whether executive has behaved in reckless fashion or has knowledge of bribe. o Supports in principle.
- o Defines permissible "grease payments" as those made to obtain "routine" service or are legal in host country. o Supports.

ADJUSTMENT PLAN REVIEW

- o Sets up review committee, chaired by the Commerce Secretary and consisting of USIR, Labor and Treasury Secretaries, to oversee implementation of adjustment plans in conjunction with Section 201 relief and make recommendations to USIR that relief end if it looks like plans aren't being followed. o Opposes review plan as step toward national industrial policy.

TITLE VIII--TARIFF AND CUSTOMS PROVISIONS

- o Includes over 60 miscellaneous duty bills (suspensions, reclassifications), implements Nairobi Protocol on cultural materials. o No position.

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OTHER AMENDMENTS ADOPTED ON HOUSE FLOOR

- o New U.S.-Mexico Commission for bilateral economic relations, by Representative Ronald Coleman (D-Texas) as amendment to Title III. o
- o Japanese Semiconductor Policies, call for Japan to open markets and for President to make determination in Section 301 case, by Representative Les AuCoin (D-Oregon), as amendment to Title I. o
- o Requirements for the Administration to issue new regulations speeding up negotiations on new limits on textile products, within 90 days, by Representative James Brovhill (R-NC), as amendment to Title VII. o

International Division
U.S. Chamber of Commerce
February 18, 1987

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

January 16, 1987

EDWARD DONLEY
CHAIRMAN OF THE BOARD

1615 H STREET, N.W.
WASHINGTON, D. C. 20062
202/859-6000

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

On September 5, 1985, my predecessor, Frank Morsani, wrote you concerning the importance of public support for an open world trading system and action on your part to maintain that support. He particularly urged you to take a much tougher stand against foreign unfair trade practices through aggressive use of Section 301 of the Trade Act of 1974 and other existing trade remedies. We were pleased to note that you did indeed commence several such actions in the following weeks and months. Those actions have helped alleviate domestic pressure for more drastic, and less prudent, policy actions. Moreover, an aggressive U.S. stance against unfair practices is needed to preserve public confidence in U.S. trade law and a liberal trading system.

Unfortunately, however, our trade position continues to deteriorate despite actions taken thus far. Even though foreign unfair trade practices are responsible for a relatively small share of our trade deficit, their persistence reflects a belief among our trading partners that the United States is reluctant to do what needs to be done to protect its legitimate interests in a fair and open trading system. Furthermore, many of our members, including some of our most successful exporters, complain that other countries exclude U.S. access to their markets knowingly and in violation of international and bilateral agreements, but with little fear of adverse U.S. government action. It is for this reason that the Chamber has favored mandatory retaliation against such practices when they violate international trade agreements.

There is no doubt in our minds that the 100th Congress will pass trade legislation. We think there is great potential for constructive change in this regard, and we intend to continue working closely with the Congress. We are encouraged by your administration's expressed willingness to do likewise. It is our hope that we can work closely with you and the Congress to enact trade legislation that is not protectionist, will address effectively unfair trade practices of our trading partners, will eliminate the self-imposed disincentives to American exports and will consider the broader, more fundamental competitive issues.

While we are continually assessing proposed trade law changes, it is clear to us, for example, that continued violations of U.S. intellectual property rights abroad require a decisive response. Violations of U.S. intellectual property rights constitute a significant threat to U.S. international competitiveness and foreign trade performance. We appreciate your long-standing support for strengthened protection in this area. To bolster business community efforts to secure effective intellectual property

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protection, the U.S. Chamber is creating an Action Center on intellectual property which will gather comprehensive information on this subject and make action recommendations to both the U.S. and foreign governments for eliminating violations of U.S. intellectual property rights.

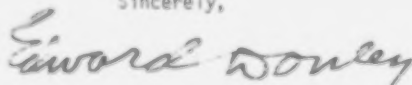
We also believe that U.S. law includes far too many unwarranted, self-imposed disincentives to U.S. exports. United States antitrust laws need to be examined to ensure that they do not undermine U.S. competitiveness, domestically and overseas. The U.S. Chamber strongly opposes bribery and supports the objectives of the Foreign Corrupt Practices Act. However, that Act, as currently written, is sufficiently vague so as to effectively discourage U.S. companies from pursuing foreign business in ways that were not intended to be prohibited. In addition, there is an urgent need to revamp export control statutes and regulations to eliminate unnecessary controls on U.S. exports which not only fail to improve national security, but also severely undermine the legitimate commercial interests of the United States, not only in terms of sales, but also in technological innovation.

There is also a good deal of concern that Section 301 itself, as potent a statute as it is, does not provide for sufficiently certain recourse against foreign unfair trade practices. For this reason, the U.S. Chamber is currently surveying those companies and other organizations that have filed Section 301 petitions since 1975 to determine whether that law, as currently written, provides effective recourse against those practices. We hope to reach some conclusions and develop some recommendations in the near future.

Foreign unfair trade practices cost U.S. businesses billions in lost market opportunities every year. More importantly, they deflect attention from other problems which contribute much more significantly to our trade imbalance. The issue of America's ability to compete in the world marketplace is justifiably at the top of the national agenda. America's global position requires the highest priority and attention. No one is more convinced than the U.S. Chamber of our ability to harness our creative ingenuity, management expertise and extensive pool of human resources to enhance U.S. competitiveness at home and abroad. To do this effectively, government leaders must cooperate in promoting policies which sustain an environment conducive to economic growth and global competitiveness.

In conclusion, we applaud your efforts in the past to address this issue in a positive way. But much more needs to be done. We urge you to work with the Congress in developing constructive trade legislation. We encourage you to pursue actions at the executive level which will move us toward our common goal of strengthened U.S. competitiveness and an open, expanded world trading system. We wish you well and stand ready to assist you in any way that we can.

Sincerely,



Edward Donley

Chairman GIBBONS. We will hear the rest of the panel, but let me thank you for being so specific. We appreciate the specificity of your testimony.

Let's go to the rest of the panel now. Our next witness is John Meagher. John, glad to have you here. Thank you for your long service here with us on the committee.

STATEMENT OF JOHN K. MEAGHER, VICE PRESIDENT, GOVERNMENT RELATIONS, LTV CORP., AND CHAIRMAN, BASIC INDUSTRIES COALITION, INC.

Mr. MEAGHER. Thank you, Mr. Chairman, members of the committee. It is a great pleasure and honor for me to testify here in behalf of the Basic Industries Coalition of which I am the chairman.

The coalition is a group of industries and trade associations that have been involved in studying and working on the questions of American competitiveness for about four years.

In that connection, it is our view that trade and competitiveness are not synonymous words and should not be used synonymously.

We hear, for example, the comment that Congress is going to pass a tough new trade law that will maintain our competitiveness or restore it and help maintain our standard of living. That may or may not be true. Competitiveness is a much broader concept that embodies a number of other factors that do not relate to trade.

It is the view of the coalition that the problems of basic industries are for the most part not traditional trade problems. They don't relate to the questions of trade reform as much as they relate to the questions of the cost of production in the United States versus the cost of production in the countries of our trading competitors.

It is our view that other policies of the Government as well as the economics of the society are the fundamental difficulties that we face in competing in not only the international market place but the domestic market place.

Those costs are costs imposed and supported by our society. They are environmental, tax, credit, and social insurance costs, all of which are supported, by the people of this country and continued by Congress over a period of years.

However, the American consumer, the American taxpayer, whether a corporate taxpayer or an individual taxpayer, is bearing the burdens of those costs and those costs are reflected in our ability to compete and are the root cause, it seems to us, of the competitiveness problem.

Our position is very frankly that imports ought to pay their fair share of the burden of this market place since they obviously share in the benefits of the market place.

In that connection, we believe that imports are a primary cause of our budget deficit. Why is that? It is because revenues have fallen in relation to imports. If you look at table one in my testimony, you will see that in a 6-year period, from 1981 to 1986, the revenues we lost to imports at the Federal level were \$111 billion. If you add State and local revenues to that, it is \$179 . That assumes all revenues were taxed or assumes that we had no budget or trade

deficit and that the goods were taxed in the same way American-produced goods would have been taxed.

Everybody understands that is not realistic. What I am trying to demonstrate and show in this table is the order of magnitude of the loss of revenue from the diminution in wages and salaries and, therefore, taxes from American workers and corporations, I think this graph shows that order of magnitude.

You can argue over the assumptions. It doesn't include multiple factors, inflation, but the order of magnitude is huge, and it is our view that one of the fundamental ways we have to deal with competitiveness is not to slam the door, for example, on imports, not to say Americans don't have choices, but to make foreign imports pay their share of the American market place.

Simply as a matter of fairness, we have to ask the question: is it fair to tax General Motors and not Toyota? Should Kodak have to pay taxes and Cannon not on products sold in this market place?

Today, Nissan, Toyota, don't pay taxes. Kodak, General Motors and Ford do pay taxes in this market place. All we are saying is that those who do business here ought to share in the burdens of that market place. We think this is a better alternative to competitiveness than are quantitative restraints that are imposed or sought by industries after the barn door has been shut.

Our position is that we ought to have some sort of a minimum tax on imports as we have a minimum tax on corporations and in individuals.

Another table—there is a mistake in the third case here, only a \$39 billion minor error I made in my calculations—but we take the steel worker and compare the revenues of that steel worker if he was making \$20 an hour and show what the loss of revenue would be in three different scenarios; one where he immediately got another job at \$8 an hour, second where his wife went to work, for example, and each—their combined total income was \$23,000. Then we show the difference between what he would have had in revenue if he had maintained his job and if his wife had gone to work. That is about \$8 million. That is the last case.

What this shows, I think, is that in individual sectors of the economy, we have elements of revenue loss that have been significant. We call them lost opportunity revenues.

Finally, I want to talk about two things we believe are fundamental. The first is that any kind of tax system we have—and the one enacted last year is a very sound tax system this committee worked on—needs a consumption tax element.

If we are going to copy the Japanese maybe we ought to look at what they are about to do. They are about to enact a tax bill similar to the one passed in 1986. They added something, a value-added tax. They did that in order to maintain their savings rate. We will see whether it works.

The second thing is that they have determined that that will help them—and we ought to look at that, too—maintain the jobs in their own country.

Our policy goal, it seems to me, in competitiveness ought to be to attempt to make it as economically feasible, to produce a product or sell a service that is made in America as it is to produce a product or sell a service overseas.

Today the incentives don't allow that situation to occur. In many instances it is cheaper to go offshore, produce a product and import it into the United States, than it is to produce it here. That is the fundamental issue in competitiveness, we believe.

We think that the way to do this is not slam the door on imports, but tax them in a way that is fair, consistent with their share of the American market that they are enjoying.

That will also help to deal with the question of worldwide capacity, overcapacity. In many sectors worldwide overcapacity exists. The reason for it is that foreign governments subsidize the building capacity for import into the domestic marketplace because the market is open.

We will never solve our competitiveness problem unless we deal with overcapacity. We think the taxation scheme is an alternative to outright quantitative restraints, that it is an effective means not only to deal with our budget deficit problem but also to start to deal with the question of building overcapacity.

Thank you very much.

Chairman GIBBONS. Thank you.

[The statement of John K. Meagher follows:]

STATEMENT OF JOHN K. MEAGHER, VICE PRESIDENT—GOVERNMENT RELATIONS, LTV CORP., ON BEHALF OF THE BASIC INDUSTRIES COALITION, INC.

Mr. Chairman, members of the Committee, my name is John Meagher. I am a Vice President of The LTV Corporation and Chairman of the Basic Industries Coalition (BIC). The coalition is made up of companies and trade associations interested in and concerned about issues of competitiveness of America's basic industries. While BIC has been concerned primarily with taxation issues, it has spent a considerable amount of time in the last year studying the international competitiveness problem, and, inevitably, that leads to the trade issue.

Unfortunately, and mistakenly, two words—"trade" and "competitiveness"—tend to be used synonymously. We hear, for example, statements along these lines: "We must pass a tough trade bill this year so that America will again be competitive in world markets and the American standard of living will be maintained." Sounds good, but it is important to note that absent long-range changes in other policies, a tough new trade bill will not make us competitive again. In fact, the wrong kind of trade bill may be harmful. As the debate heats up, it is critical that all involved in it understand that trade is only one element in the "competitiveness crisis", and that writing a "tough" trade bill probably won't do very much about our balance of trade problems.

We do have, however, a "competitiveness crisis" which needs not only our immediate attention but a long-term and on-going commitment on the part of all—business, government, labor, and consumers—to solve. In order to proceed on either the short or long term problems inherent in the "competitiveness crisis", we must understand the nature of the crisis and that means knowing what it is not as well as what it is.

From the perspective of basic industries, most of the so-called "trade" problems plaguing basic industries are not "trade" problems in the traditional sense. They are not, for the most part, based on a failure of the existing trade law since many basic industries have won cases and relief from the International Trade Commission (ITC) and/or have enjoyed voluntary restraints by foreign suppliers (cars) or not so voluntary restraint agreements (steel). Rather, the problems of basic industries' ability to compete are grounded in policies and events more fundamental to the cost of production in this country versus the cost of production overseas. While traditional "trade" matters impact on this comparative cost, other policies have and continue to play a larger role in rendering domestic basic industries non-competitive.

Last Spring when I testified before the Trade Subcommittee, I outlined the problems—other than trade—which afflicted basic industries and impacted on our ability to compete. Briefly, our view is that other policies of the country—well-intentioned and supported as they are—have raised the cost of production in the U. S. to a point where it has been and will continue to be almost impossible for most Ameri-

can industries to compete effectively against competitors from countries which either don't have these costs or subsidize them.

These include environmental costs, anti-trust rules, tax costs, social insurance costs, capital costs and such other items like adjustment policies and foreign assistance subsidies to our competition.

Simply, the costs of these societal policies are, in our view, the key factor in our loss of competitiveness. If we are serious about competitiveness, we must review them in light of their costs and consider the impact of new programs on our cost of production. Otherwise, firms will continue to seek quantitative restraints to save their markets. At that point, the remedy often amounts to closing the barn door after the horse has escaped.

While we must continue to make every effort to negotiate a level playing field with our trading competitor countries, the past suggests we will be only marginally successful. Rather, we believe competitiveness must be viewed from a completely different perspective. That is, that imports must share in the burdens or costs of the American market since it enjoys its benefits. Simply, we must adopt measures which will require foreign imports to pay their way if they are to play in this market.

We believe, and we have some numbers to support our contention, that imports are the fundamental and primary cause, not only of our trade deficit, but, more importantly, of our budget deficit. And, that our budget deficit will simply get worse in the absence of measures which will replace the domestic revenues which we are losing as a result of imports.

The fact is our budget deficit is a result of untaxed foreign imports which have replaced American-produced goods and services on which taxes used to be collected. The budget deficit has occurred primarily because our revenues have fallen relative to what they would have been absent huge imports. Many corporations which were producing goods and services for the American market are no longer doing so and are paying less tax here. And, workers who have either lost their jobs to imports or had their taxable income reduced because they are in lower paying jobs are also paying less taxes. These "lost opportunity revenues" represent the difference between what we had and what we could have had. In contrast, those previously-produced domestic goods and services have been replaced by imported ones, but the foreign company pays no taxes on them to the U.S. Treasury, nor does the foreign worker add to our tax base.

Rather, just the opposite occurs. The foreign country collects taxes from its own workers who are producing goods and services for the American market. And, as our budget deficit deepens as a result of this phenomenon, American workers and corporations must pay higher and higher taxes in order to maintain either the level of our society and/or its standard of living. In a real sense, such a course amounts to liquidation. At some point, we either run out of money or drastically reduce our standard of living. Neither is economically or politically acceptable.

TABLE I—REVENUE LOSS FROM NONTAXATION OF IMPORTS

Year	Trade deficit (bill)	Federal revenue percent of GNP	Federal revenue loss	State and local revenue percent of GNP	State and local revenue loss	Total—(4) + (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1981	\$40	20.1	\$8	11.5	\$5	13
1982	43	19.7	9	11.5	5	14
1983	70	18.1	13	11.5	8	21
1984	124	18.0	22	11.5	14	36
1985	149	18.6	28	11.5	17	45
1986	165	18.5	31	11.5	19	50
Totals			111		68	179

Let me return to my point that imports are the primary cause of our budget deficit.

First, in the last six years the United States has lost \$111 billion in federal receipts to imports. This is illustrated in Table I.

The \$111 billion assumes that we had no trade deficit at all in those years. Such an assumption is unrealistic, but it does show the order of magnitude of our revenue loss as a result of imports. When state and local revenues are added in, the loss is \$179 billion.

Second to sharpen the focus, let's look at how imports have impacted our revenue levels from a specific industry. The steel industry has been decimated by imports and, in the last six years, 250,000 steel workers have lost their jobs. Many haven't found new jobs, but some have taken lower paying jobs and their spouses have gone to work in an attempt to keep the family afloat.

The following cases show the loss of revenue from the steel worker who lost his job 6 years ago. It assumes he was making \$36,000 gross income based on \$20 per hour for 45 weeks a year, and that he had a wife and two children.

CASE I

(6 year totals)

In Case I, after his termination from the steel industry, he immediately obtained another job at \$8 per hour, and his wife didn't go to work.

	Income	FICA	Total
Tax paid at \$36,000 GI	\$20,000	16,978	\$36,978
Tax paid at \$14,400	8,000	11,880	19,880
Reduction in revenues	12,000	5,098	17,098

Note.—\$17,098 × 250,000 = \$4.3 billion.

CASE II

(6 year totals)

Case II assumes the steel worker has an \$8 per hour job and his spouse obtains a job for \$5.00 per hour.

	Income	FICA	Total
Tax paid at \$36,000	\$20,000	\$16,978	\$36,978
Tax paid at \$23,400	10,000	19,305	29,305
Reduction in revenues	10,000	+ 2,327	7,673

Note.—\$7,673 × 250,000 = \$1.9 billion.

CASE III

(6 year totals)

Case III shows the revenue gain if the steel worker had kept his steel job and his wife went to work at \$5 per hour.

	Income	FICA	Total
Tax paid at \$45,000	\$37,500	\$24,403	\$61,903
Tax paid at \$23,400	10,000	19,305	29,305
Opportunity revenues	27,500	5,098	32,598

Note.—\$32,598 × 250,000 = \$8.1 billion.

These numbers clearly illustrate the dimensions of this problem from both the national perspective and the individual worker's perspective. The point is if we can bring down our budget deficit, we can lower our cost of capital, and have the money to deal with our other societal costs thus making us more competitive. And, most importantly, the only pro-competitiveness method of lowering our budget deficit is

to tax the imports which gave rise to the problem. Increasing domestic taxes simply renders America less competitive.

RECOMMENDATIONS

While competitiveness embodies many issues, we believe the core of the problem lies in untaxed imports which are eroding our revenue base. We are allowing imports to come into America free and to enjoy the benefits of the American marketplace which is being maintained by a dwindling domestic economic base. Ironically, that dwindling economic base is also paying the tab for the defense of those countries which are importing their goods into our market.

In a phrase, they have the best of all worlds.

Our recommendations are not to slam the door on imports through quantitative restraints, but rather to make them "pay their way" as a matter of fairness. Is it fair to tax General Motors but not Nissan? Hardly.

Basically, we need a policy which requires all in the market to "pay their way." Most foreign governments impose such a burden on American goods or services entering their markets. They do so via various tax mechanisms like Value Added Taxes, by requiring direct investment and manufacturing in their countries, by quantitative restraints, or various other non-tariff barriers.

A "pay their way" proposal would impose taxes on imports from countries which export to the U.S. in a manner to generally reflect the diminution in revenues occasioned by the imports from that country. Some sort of a Minimum Tax on Imports seems appropriate. Such a tax could be levied in various ways and both the Administration and the Congress should begin work on alternatives to implement such a policy. The Business Alternative Minimum Tax (BAMT) legislation introduced by Representative Schulze (R-Pa) is a good model which deserves serious consideration.

The goal of the policy would be to make it as economically feasible for American (and foreign) manufacturers to produce their goods and services here as to produce them offshore. This will assure that American workers have a shot at keeping their jobs and paying taxes based on higher earnings and that foreign producers may find America an attractive place not only to invest but produce.

It can and will be argued that foreign producers will simply eat the tax in order to continue their market share. If they choose to do so, at the very least, we can reduce our budget deficit which will lower our domestic cost of capital thus making it possible for our businesses to become more productive through the purchase of new plant and equipment and additional R&D.

Also, the revenues gained could be used to deal with certain specific problems our competitiveness crisis has created. Specifically, we need a new adjustment assistance program for import impacted workers, communities, and companies.

Finally, we must begin to face realistically the world-wide, over-capacity problem. As our trade deficit worsens, the ability of companies to rationalize their capacity in order to become more competitive declines because they have neither the internal revenues nor the tax base to do so.

While other countries subsidize industry rationalization in various ways, we don't. BIC will be developing proposals to deal with this issue and send them to you in the near future.

Chairman GIBBONS. Our next witness is Bob McNeill whose pedigree in this business goes way back to the Tokyo round and perhaps before.

STATEMENT OF ROBERT L. McNEILL, EXECUTIVE VICE CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE [ECAT]

Mr. McNEILL. Before that, Mr. Chairman.

Chairman GIBBONS. The Kennedy round, certainly. Welcome Bob.

Mr. McNEILL. Thank you, Mr. Chairman.

I have a number of recommendations summarized in the summary sheet before you. I simply will go down those quickly.

ECAT believes that the principal purpose and, indeed, the centerpiece of a trade bill should be a grant of adequate trade negotiating authority to the President.

The American business community is terribly concerned with a number of practices abroad having to do with such things as the

pirating of intellectual property and with obstacles governments present to Americans who want to invest abroad. We have problems abroad in many areas that will be subject to negotiation in the agreed to Uruguay round of trade negotiations.

We believe the President needs a rather broad grant of authority to address these problems in that multilateral round of trade negotiations. We would hope this committee and the Congress would see fit to grant the President an adequate authority over at least a period of 5 years to enter into tariff-reducing negotiations and to give the President a proclaiming authority to proclaim the results of tariff reductions.

In the case of the nontariff barriers that I alluded to a moment ago, we would hope that the fast track authority could be extended by the Congress for a period of not less than 10 years, Mr. Chairman, and perhaps even longer than that with as few limitations as possible on the fast track.

We recognize the Congress' interest in oversight and in the subject matters to be negotiated. We hope that the Congress has a very substantial input and, indeed, representation on the negotiating teams.

We do hope, however, that the Congress does not strap the President's authority in a way that might make the President a noncredible negotiator abroad.

In respect of section 201, we have two basic recommendations. Before mentioning them, I would like to note and call to the attention of you, Mr. Chairman, and your colleagues that section 201 relates to article 19 of the GATT, which is intended to be an adjustment mechanism. Article 19 of the GATT and our section 201 contemplate that if in the conduct of trade policy American industries are injured seriously by reason of competitive imports, that the President can grant a period of protection by raising tariffs pursuant to 201.

But in the course of doing that, the increased tariffs usually will disturb concessions that have been negotiated through the GATT, so that to provide tariff protection for a seriously injured industry is going to cause some kind of grief to other innocent bystanders not party to the section 201 process, because in order to rectify the balance, foreign governments have a right to either retaliate by imposing higher duties on American exports or to ask for compensation from the United States in the form of lower tariffs or similar volumes of trade to that covered by the 201 protection.

In providing 201 protection, therefore, it must be borne in mind that other industries have to pay the price. Other American industries and their workers may be subject to job loss in order to protect other American workers. I think it is a very important consideration that one must bear in mind when talking about amendments to section 201.

We think that section 201 provides an adequate balance between import protection and the national interest and we would prefer to see it undisturbed.

If, however, the Congress decides to amend 201, we do suggest that the President's discretion be limited only in those instances where there has been a unanimous finding of serious injury by the

commissioners of the International Trade Commission, as in the shoe case that was earlier discussed.

Where there is a unanimous finding of serious injury, I think there is a clear indication that there is a problem that competitive imports have caused. We think the President in such instances should be required to take an affirmative action—that is, to do something rather than to do nothing.

It would be our hope that the something would be worker adjustment assistance rather than the imposition of import restrictions. A negotiation of a voluntary agreement with the exporting countries in order to avoid retaliation would also be a preferred course.

A second recommendation we have under section 201 is that during times of economic recession, the threshold for establishing serious injury should be somewhat lesser than in normal times. Otherwise, in times of economic recession, recession will probably be found to be the most important cause of injury to domestic firms and workers. Therefore, section 201 will not be operable.

We would hope that the committee might consider a lower threshold of causality in respect of applications for section 201 relief during times of economic recession.

Under section 301, we think that where foreign practices are clearly illegal, that there should be a presumption that the President should be required to retaliate after he has made an effort at negotiation or after he has utilized the dispute settlement procedures of the GATT.

Other than that particular sort of situation, we believe that the President should retain his present discretion not to be forced to retaliate, because very vital matters of national interest can be involved. We think those matters should be reflected on by the President and that he should have discretion in dealing with them.

Under the countervailing duty statute, Mr. Chairman, we have always had a difficulty with the natural resource provision and would prefer to see that issue discussed in the Uruguay round of trade negotiations.

As you know, there is controversy as to whether a unilateral legislative act here making natural resources subsidies countervailable in instances where they are generally available in foreign economies would be violative of our international obligations. If so, it would authorize foreign retaliation against the United States.

We would hope that the natural resource issue could be resolved in the Uruguay round. We are pleased to note that a working group on natural resources has been established in the Uruguay round. So, it is under consideration internationally.

On the antidumping-duty statute, we have problems with the diversionary dumping proposals as we also do with the private right of action proposal of Congressman Guarini.

In respect of the antidumping statute, we also believe there should be a pricing test in respect of imports from nonmarket economies.

On section 337, we recommend that the provision in H.R. 3 be enacted whereby the injury requirement is dropped as a condition for providing section 337 relief in instances where there have been imports that are violative of American patent and copyright protection.

Under the generalized system of preferences, we support the provision that products that are competitive be deemed to be ineligible for GSP treatment.

And finally, on trade adjustment assistance, we would rather see a comprehensive worker adjustment program than the present bifurcated program between trade adjustment assistance and other forms of worker assistance.

We applaud the administration's proposal to ask for a billion dollars for that purpose. We think that is a far more generous program than the current one.

In respect of financing worker adjustment assistance, we prefer that that be done through general revenue rather than through the imposition of a special import fee.

Thank you for your patience.

Chairman GIBBONS. Thank you.

Five minutes is a very short time to give a person with a background you have in this matter to testify. I hope you will recognize we are operating under a very tough time limit. I assure you we will read your statement in its entirety.

[The statement of Robert L. McNeill follows:]

STATEMENT OF ROBERT L. McNEILL, EXECUTIVE VICE CHAIRMAN,
EMERGENCY COMMITTEE FOR AMERICAN TRADE, BEFORE THE
COMMITTEE ON WAYS AND MEANS SUBCOMMITTEE ON TRADE
HEARINGS ON COMPREHENSIVE TRADE LEGISLATION

Wednesday, February 18, 1987

Mr. Chairman, we welcome the opportunity to present the views of the Emergency Committee for American Trade (ECAT) on various proposals for a new trade bill. We believe that trade legislation is necessary and further believe that a grant of authority to the President to enter into trade negotiations should be the top priority for any trade bill.

An estimated \$170 billion 1986 foreign trade deficit will dominate congressional consideration of a foreign trade package. A hoped-for slackening in the trade deficit simply did not occur in 1986 even though the international exchange value of the dollar continued its two-year slide against certain foreign currencies, including a 40 percent depreciation against the Japanese yen. While the prices for Japanese products in the United States have increased, the increase has not been nearly to the full extent of the dollar's depreciated exchange value. This is because Japanese exporters appear for the most part to have absorbed the depreciated difference through reduced profit margins or through selling at possible losses in order to maintain U.S. markets. The ability of the Japanese to continue to do this, however, will be limited over time. The continuing drop in the exchange value of the dollar against the yen is causing considerable economic pain in Japan. Stories of huge job layoffs in major Japanese industries are becoming common.

Adjustment of the type to be expected through changes in foreign exchange rates, therefore, appears to be taking place and the U.S. foreign trade balance with Japan and with others can be expected to improve. How much and when, however, is conjectural. In the meantime, much remains to be done in finding cures to the burgeoning U.S. foreign trade deficit. As noted in ECAT's January 15, 1987, statement to the Senate Finance Committee, this above all will require a substantial improvement in the federal budget deficit, which is a fundamental cause of the trade deficit. A substantial lowering of the budget deficit will cause an equally substantial lowering of the trade deficit in substantial part because of its effect in lowering the international exchange value of the dollar.

A number of other measures additional to improved U.S. fiscal policies are needed at home and abroad to improve the international economic position of the United States. While the major macroeconomic measures that are necessary are within the provinces of governments, many measures are within the province of the private sector. In the United States, for example, management has undertaken and continues to undertake often painful actions to improve productive efficiencies. In a number of industries, these actions are considerably improving international competitiveness and they will help to improve the trade balance.

While there is an increasing awareness that foreign trade policy itself is not a major causative factor of the foreign trade imbalance, changes in U.S. trade policies can significantly help to correct the trade deficit. Secretary Baldrige and others, for example, have estimated that the removal of unfair trade practices abroad could increase U.S. exports by \$10 - \$20 billion.

Changes in U.S. trade statutes will form a major part of Congress' response to the foreign trade deficit. Fortunately, and correctly, the response will be much broader than a mere tampering with such provisions as Sections 201 and 301 of U.S. trade law. The response will include a broad congressional examination of a number of laws and regulations that affect the international competitiveness of the United States, including such measures as the Foreign Corrupt Practices Act, the Export Administration Act, and the foreign provisions of the Internal Revenue Code.

Before discussing ECAT positions on the safeguard statutes of U.S. trade law, let us look at the question of the grant of authority to the President to negotiate the Uruguay Round of multilateral trade negotiations as well as any bilateral trade agreements.

Trade Negotiating Authority

The most critical part of an omnibus trade bill will be the grant of authority to the President to negotiate the Uruguay Round of multilateral trade negotiations. Two kinds of negotiating authority are necessary. The first is authority to negotiate reciprocal reductions in U.S. tariffs. The second is authority to negotiate on non-tariff trade barriers. Both types of authorities are controversial.

Tariff Reducing Authority

Although U.S. tariffs and those of most industrialized countries are in the 5 - 10 percent range, there are many tariffs that are in much higher ranges. In most of the developing countries, tariffs are typically at very high levels and constitute major barriers to market access for U.S. and other exporters. Tariff reductions are, therefore, still a major objective in the search for trade liberalization.

In the last Congress, ECAT recommended that the President be granted a tariff-reducing authority for a period of at least five years. We also recommended that the President be given a proclamation authority for implementing U.S. tariff cuts.

H.R. 4800 granted the President a qualified authority to negotiate and proclaim the results for a period of five years. The major qualification was that U.S. tariffs could not be reduced on products that are ineligible for the GSP system. Ineligible items include textiles and leather products, among others. ECAT objects to this exclusion since it would severely limit the scope of the tariff negotiations at the very outset and impair the credibility of the United States as a serious negotiating partner.

ECAT supports at least a five-year tariff negotiating authority without the limitation just noted. Although not yet definite, it is likely that the Administration will request a 10-year tariff negotiating authority. It is also likely, however, that the Congress will impose serious qualifications having to do with congressional oversight and/or possible congressional overrides of the results.

Non-Tariff Negotiating Authority

The President currently has authority to enter into agreements to reduce, eliminate, or harmonize non-tariff barriers until January 3, 1988. These agreements are subject to congressional approval of implementing legislation under the "fast track" procedure, which is a procedure whereby Congress must approve the negotiated non-tariff agreement within a period of 60 legislative days. The vote has to be a yea or nay with no amendments.

Without this "fast track" procedure it would be very difficult for the President to enter into non-tariff agreements since in nearly all cases such agreements would either modify existing U.S. laws or require new ones and, therefore, require acts of Congress. Good examples of non-tariff agreements were those negotiated in the Tokyo Round establishing multilaterally agreed procurement and subsidy codes. Since the procurement code, for example, modified existing federal procurement laws and regulations, implementing legislation was necessary in order for the United States to carry out its procurement code obligations. Without the "fast track" procedure, it would have been unlikely that the code could have been negotiated since our trading partners would have faced the uncertainty that Congress might not have found the time to pass the necessary implementing legislation or the uncertainty that Congress might have amended the agreement through the legislative process thereby requiring renegotiation of the agreement.

By providing a tight time limit and prohibiting legislative amendments, the "fast track" procedure enables the President to be a credible negotiator in the non-tariff field. The procedure also provides a role for the Congress in drafting the implementing legislation before it is formally proposed by the Administration. The procedure is an essential one. Without it, non-tariff agreements would hardly be possible for the United States. And since the most critical parts of the Uruguay Round will be in such vital non-tariff areas as negotiating new rules for international trade in services, investment and the protection of intellectual property rights, retention of the "fast track" procedure is essential.

ECAT strongly supports continuation of the "fast track" procedure with as few limitations on the President's non-tariff negotiating authorities as is possible. Since non-tariff negotiations are likely to be ongoing for indefinite periods, it is further recommended that the Congress extend the "fast track" procedure for a period of no less than 10 years.

Negotiating Objectives for International Trade Negotiations

ECAT last year agreed on a series of negotiating objectives and forwarded them to appropriate authorities. All of the principal ones were agreed to by the GATT ministers at their 1986 meeting at Punta del Este, where the objectives for the Uruguay Round were agreed to.

ECAT's main objectives include:

- ...completion of long-standing negotiations for an international safeguards code modeled both on Section 201 of U.S. trade law and Article XIX of the GATT,

- ...development of rules to foster and protect intellectual property rights,

- ...development of rules to foster and protect foreign investments,

- ...development of rules for international trade in services,

- ...improvement of GATT rules for state-trading,

- ...development of effective GATT rules for trade in agricultural products, and

- ...improvements in the GATT structure to accommodate GATT's expanded responsibilities. Particularly important will be improvements in dispute settlement rules and procedures.

Finally, ECAT recommends that the GATT system be better related to international financial institutions. Within the United States there is also a great need for better coordination between trade and financial matters.

Trade Statute Reform Proposals

Along with trade negotiating authorities for the President, amendments to several import safeguard statutes will be critical parts of the omnibus trade bill. The principal objectives of the Congress in amending these statutes will be to make import relief more certain and to force the President to be more aggressive in opening foreign markets for U.S. producers.

As a preface to discussing the principal proposals for legislating changes in U.S. trade statutes, we recommend that amendments to trade law should meet the following basic criteria. Any changes should:

- ...foster U.S. international competitiveness,

- ...accord with U.S. obligations under international law,

- ...leave the President with adequate flexibility and authority to weigh the overall national interest against specifically recommended trade restraints, and

...recognize that gaps in international commercial law and practice should be resolved through international agreement and not through unilateral actions.

Section 201

Section 201 is the basic "escape-clause". It conforms to Article XIX of the GATT which authorizes the increasing of tariffs or the imposition of import quotas in cases where imports are a cause of serious injury to domestic industries. Escape-clause cases involve fairly traded items where competition itself is the reason for serious injury and not such unfair actions as "dumping" or export subsidies.

Since January, 1975, there have been 60 Section 201 cases. In 33 of these cases the International Trade Commission (ITC) found imports to be a cause of serious injury and recommended import relief. In 12 of these cases the President agreed and provided import relief.

In another very important Section 201 case, the ITC several years ago rejected a UAW petition for import relief but the President worked out an auto export restraint arrangement with Japan.

The most contentious Section 201 case in recent years has been the shoe case. In 1984, a split ITC found serious injury and recommended import relief. Invoking his discretion, the President rejected the ITC recommendation to the very great consternation of a number of Senators and Congressmen from shoe-producing states. A year later, the domestic shoe industry again petitioned for Section 201 relief. This time a unanimous ITC found serious injury and again recommended import relief that again was rejected by President Reagan. This led to the introduction of bills that would limit or eliminate the President's ability to reject ITC recommendations and also to shoe import quota legislation that became part of the textile import quota bill.

Legislation amending Section 201 while dealing with a number of technical matters involves two principal issues that are designed to make Section 201 import relief more certain.

The first of these would limit or remove the President's discretion to reject the findings and recommendations of the International Trade Commission. The President currently has the authority to do this when he determines that the national interest would be better served by not imposing import relief.

The second of these measures would lower the threshold standard that imports must be a "substantial" cause of serious injury to domestic industries in order for an industry to be eligible for import relief. The lower threshold standard would be that imports simply be "a" cause of serious injury. The lower standard presumably would make import relief easier to attain.

When considering amendments to Section 201, it is very important to bear in mind that severe costs are involved in a general lowering of the threshold for import relief. Too easy a test would result in either substantial compensation bills owed by the United States to foreign countries whose trade would be disadvantaged by Section 201 relief, or in foreign retaliation against U.S. export industries if our trading partners decided against accepting compensation offered to them by the United States. In either case domestic industries and workers not parties to the Section 201 process would have to pay the price for the import relief granted to others -- a not appealing prospect.

Import restrictions imposed pursuant to Section 201 almost always modify a U.S. import concession that other countries have paid for in the form of a reciprocal lowering of their own import barriers. Since something of value has been taken from them by Section 201 escape clause restrictions, the GATT rules authorize them to right the balance by imposing restrictions of their own against a similar volume of their imports from the United States -- or from any other country taking similar action -- or by being compensated by the United States through the lowering of U.S. import barriers on a like volume of their exports as that affected by the Section 201 restriction.

An exception to the compensation/retaliation problem, of course, occurs in cases where Section 201 import relief is accomplished through a negotiated settlement with the trading partners whose imports are threatened to be restricted.

ECAT's recommendations concerning revisions of the trade statutes are summarized below:

1. Presidential Discretion Under Section 201

As a general rule, it is agreed that the President requires discretion to be able to weigh the national interest against the likely consequences of implementing import relief measures recommended by the International Trade Commission (ITC) in Section 201 cases.

An ECAT recommended exception to this general rule would be in cases where there is a unanimous finding by the ITC of serious injury to an industry. In such cases the President would be required to take action on one or more of the alternatives available to him. These include (1) providing a program of adjustment assistance, (2) providing antitrust exemptions as a means of fostering the competitiveness of domestic producers,* (3) relaxing federal regulatory rules to enhance competition,* (4) negotiating a voluntary restraint program with foreign exporters, or (5) providing import relief along the lines recommended by the ITC.

2. Shifting Presidential Section 201 Authorities to USTR

ECAT does not object to shifting Presidential Section 201 authorities to the United States Trade Representative so long as current interagency processes continue to apply and so long as it is clearly understood that the USTR is free to seek the advice of the President when it is clear that important national interests are involved in implementing Section 201 recommendations from the ITC.

Such a shift would have the positive benefit of enhancing the position of the USTR both at home and abroad.

3. The Causal Relationship Between Imports and Serious Injury

ECAT believes that the current Section 201 requirement that imports be a "substantial" cause of serious injury should continue to be the normal threshold standard. However, ECAT has recommended for several years that Section 201 should be amended to provide that during times of domestic economic recession -- as officially measured -- the threshold for import relief could be lowered by providing that imports do not have to be a cause "no less important than any other cause," which is the current definition of a "substantial" cause. This recommendation is addressed to situations like those involved several years ago when the ITC found in a Section 201 investigation that the recession was a more important cause of the depressed auto industry than imports. Although the ITC in a subsequent case made a Section 201 import relief recommendation during time of recession, different commissioners might arrive at a different conclusion in future cases.

In absence of a statutory change of the type recommended, it is conjectural whether Section 201 relief will be operable during periods of economic recession. Congress would then be called on to provide the relief requested. Implementation of this recommendation could avoid this.

* The Administration is expected to request authority from the Congress for these purposes in its trade proposals.

4. Trade Adjustment Plans Under Section 201

Last year ECAT adopted a position that petitioners for Section 201 import relief should be encouraged to submit a specific plan as to how the petitioner would use the period of import relief to become more competitive. We expressed our belief that government should not be a participant in the drafting of the adjustment plan, which should be the responsibility of management and labor.

In the materials accompanying his State of the Union Address, the President made a rather dramatic recommendation that if in the judgment of the International Trade Commission an industry petitioning for Section 201 import relief cannot effectively adjust to import competition, even with a period of import relief, then the plea for protection could be rejected.

This recommendation accords with the thrust of the competitiveness proposals of the Administration and appears to be based on the premise that advantages provided an industry through import restrictions could be more than offset by net costs to the economy as a whole. The more basic the protected industry or product, for example, the more the higher costs would be spread throughout the economy, thereby undermining the competitiveness of other industrial sectors in both the U.S. and foreign markets.

While the outline of this proposal of the President appears to have merit we are unable in absence of more detail to recommend an ECAT position. We expect the detail shortly and shall make a recommendation. A troubling aspect of the proposal is that it calls for judgments about the future competitiveness of U.S. industries, judgments that would be very difficult to make.

Section 301

Section 301 of the Trade Act authorizes the President to impose import restrictions on products from countries that maintain "unreasonable," "unjustifiable," or "discriminatory" restraints that burden United States commerce. Before exercising this authority the President is expected to seek a satisfactory resolution with the country or countries concerned either through invoking the GATT dispute settlement procedures or through separate negotiations, or through a combination of both. If these efforts prove unsuccessful, he can then retaliate against the foreign country in a variety of ways. The President, however, can retaliate without utilizing the GATT procedures or without seeking a negotiated settlement.

Of the several trade statutes, Section 301 is the one aimed at eliminating foreign trade barriers and trade practices that hamper U.S. exports and commerce. It also relates to the dispute settlement procedures of the GATT, which are designed to enforce GATT laws and procedures and enhance the trade of its members.

As is well known, Section 301 is being invoked by the Administration with very considerable success on a rather regular basis. This is a welcome development since it is one of the most effective means available to the President to gain better breaks for U.S. business in unfairly or unjustifiably restricted foreign markets.

While Section 301 has been invoked a number of times, retaliation has generally not been necessary since its invocation has led to negotiated settlements in a number of instances. Nevertheless, there is a feeling among many in the Congress that Section 301 should be amended to limit the President's discretion both through requiring retaliation under certain circumstances and through shifting his Section 301 responsibilities to the United States Trade Representative.

ECAT positions on various Section 301 issues are summarized below:

1. Reciprocity under Section 301

A basic principle of the GATT and of U.S. trade law and policy historically has been that of reciprocity. In international trade negotiations under the GATT the basic meaning of the term has been the achievement of equivalent tariff or other concessions on equivalent volumes of trade. To illustrate, a clear definition of reciprocity would be the United States granting as the result of a trade negotiation 50 percent tariff reductions on U.S. imports of \$30 billion in return for 50 percent foreign tariff reductions on \$30 billion of U.S. exports.

Under the above illustration, reciprocity is sought and achieved on an overall basis. Many, however, have questioned reciprocity being sought on the basis of aggregates, and have suggested that reciprocity be sought on the basis of particular industries or products so that if, for example, one country has a 10 percent tariff on widgets and another a 5 percent tariff on widgets, there can be no reciprocity until both countries have an identical widget tariff. Reciprocity in this example is thus based on the same degree of protection product by product. Negotiators indeed seek such results but they are not always achievable.

In recent congresses bills have been introduced requiring reciprocity at industry and product levels. If not achieved, some of the bills would require U.S. restrictions until the foreign country or countries provide identical or equivalent market access to that afforded by the United States. To the extent that such restrictions imposed by the United States were violative of international law or practice, they could be expected to lead to foreign restrictions against U.S. exports. Largely for that reason, such reciprocity bills have not been enacted into law.

Nevertheless, reciprocity in the more restricted sense is a key issue and there are instances where the lack of reciprocity falls within the "unreasonable," "unfair," or "discriminatory" provisions of Section 301. The President has indicated that he will seek an amendment to Section 301 making the lack of reciprocity an actionable cause.

There is some doubt as to whether the President needs to single out the lack of reciprocity as an actionable cause since Section 301 would appear to provide the President with sufficient authority in this regard already. Nevertheless, it is a reasonable proposal and it is likely to be politically popular.

ECAT supports this reciprocity proposal so long as the President retains his flexibility not to have to retaliate under Section 301.

2. Presidential Discretion Under Section 301

ECAT agreed last year to recommend that in instances where Section 301 is invoked against illegal foreign practices -- as measured by the standards of the GATT and any other bilateral or multilateral agreement -- and where the dispute settlement procedures of the GATT or other relevant procedures have been followed and have vindicated the U.S. claim, then it should be presumed that the President should be required to retaliate against the concerned foreign parties if a satisfactory accommodation of the Section 301 complaint has not been achieved.

In all other Section 301 cases ECAT believes that the President should retain his current discretion as to whether or not to retaliate against objectionable foreign practices.

3. Shifting Presidential Section 301 Authorities to USTR

As with the case under Section 201, ECAT has no objection to shifting Presidential Section 301 authorities to USTR so long as interagency procedures continue to apply and so long as it is understood that the USTR is not prohibited from consultation with the President concerning issues of the national interest.

4. Requiring Import Restraints to Redress Import Surpluses Under Section 301

Among the most controversial provisions of H.R.4800 last year was a Section 301 amendment mandating negotiations in order to reduce the U.S. trade deficit with U.S. trading partners who maintain unfair trade practices and who run arithmetically determined trade surpluses with the United States. If the negotiations should fail, the President would then be required to impose import quotas against that country sufficient to meet the deficit reduction goal. The President would be granted a limited waiver authority subject, however, to congressional disapproval.

ECAT is strongly opposed to this provision. Among other things, the amendment would tend to turn Section 301 from a market opening statute to an import quota statute. It would violate our GATT and other international commitments, thereby allowing foreign retaliation. It would likely lead to foreign "mirror" legislation, and, if enacted, would severely jeopardize the prospects for successful conclusion of the Uruguay Round, which offers the best avenue of promise for improving the international trading system in ways essential to the U.S. business community.

5. Internationally Recognized Labor Rights Under Section 301

ECAT objects to a provision in H.R.4800 making the foreign denial of "internationally recognized labor rights" an actionable cause under Section 301. The United States is not even a party to treaties specifically defining these rights. Just as in the case of the imposition of U.S. export controls for public policy reasons, we object to utilizing U.S. trade as a means of trying to accomplish social objectives.

ECAT does recommend, however, that efforts be made in international negotiations and organizations, including the Uruguay Round, to codify labor rights and to secure an international consensus as to their implementation.

6. Foreign Targeting Practices Under Section 301

Foreign "targeting" practices appear already to fall within the scope of Section 301. It, therefore, would be unwise and unnecessary to single "targeting" out as a separate actionable cause under Section 301.

Since, unlike reciprocity, "targeting" is difficult to define, it is recommended that efforts be made in the GATT and elsewhere to seek common understandings as to which "targeting" activities are objectionable and, therefore, contrary to GATT and other international contractual undertakings.

7. The questions of Timing Under Section 301

ECAT has no objection to reasonable time limits being imposed during which time the President would be required to conclude Section 301 cases. The Administration is suggesting a period of two years, which appears to be reasonable.

8. Publishing Lists of Products Subject to Section 301 Retaliatory Actions

ECAT recommends that a procedure either be legislated or promulgated through rules and regulations whereby lists of products to be retaliated against in Section 301 cases be published in a timely fashion so that U.S. industries or firms will have the opportunity to comment as to whether their economic interests might be damaged.

The Countervailing Duty Statute (CVD)

This is one of the most used unfair trade statutes. It is designed to neutralize foreign government subsidies through the imposition of countervailing duties.

A subsidies code which pertains to our CVD statute was negotiated during the Tokyo Round in the 1970s. Signatories to that code benefit from a provision that domestic U.S. industries must experience injury from foreign subsidies before a countervailing duty can be applied. Countervailing duties can be applied against non-signatories to the Code without the further requirement that injury be found to exist so that there is an incentive to join the subsidies code. Membership in it entails a series of obligations, including acceptance of a prohibition against export subsidies.

Natural Resource Subsidies

The major legislative proposal to amend the CVD statute that ECAT has opposed over the years concerns "natural resource" subsidies. These are subsidies inherent in governments pricing their resources for general domestic consumption at lower prices than for exports of the natural resource. Such subsidies have been deemed not to be countervailable under the GATT so long as they are "generally available" throughout the economy. Subsidies that are countervailable are export subsidies. These are subsidies provided exports and that are not, therefore, generally available to all producers in an economy.

For the United States to unilaterally determine that natural resource subsidies that are generally available within an economy are subject to U.S. countervailing duties in contravention of accepted international law and practice would likely lead other nations to take similar actions against U.S. exports.

The United States provides natural resource subsidies to its producers and consumers in a number of natural resource areas, including water and energy resources. So do other countries provide similar benefits to their citizens. Such subsidies, therefore, do constitute a competitive problem.

While opposed to natural resource legislative proposals of the kind just described above, we do strongly support the discussion of the problem posed by natural resource subsidies in the GATT and elsewhere in order to develop an international consensus as to how to deal with them.

The Antidumping Duty Statute

Like the countervailing duty statute which provides for special duties to offset foreign government subsidies, the antidumping duty statute provides that when foreign private producers sell their products in foreign markets at a price lower than in the home market, special antidumping duties can be applied to neutralize the margin of price "dumping." In addition to "dumping," material injury to domestic producers must also be demonstrated as a condition of applying antidumping duties.

There are several antidumping duty amendments opposed by ECAT. The principal ones are as follows:

Private Rights of Action

A proposed amendment to the antidumping statute would allow private parties to sue importers and others for economic losses caused by the importation of "dumped" products. Such damages would be retroactive for up to three years.

Under this amendment, importers and others could be sued if they had "reason to know" that the products they were importing were sold at less than fair value. This "reason to know" standard is vague and it could cause considerable disruption to international trade as well as troublesome court costs. ECAT is opposed to it.

Diversiory Dumping

Another legislative proposal opposed by ECAT deals with diversionary dumping. Diversionary dumping would occur when an imported product contains a component part that had been "dumped" in a third country and that is the subject of a U.S. antidumping duty order. Assume, for example, that an automotive transmission imported from Mexico contained a component that had been dumped in Mexico by a South Korean exporter. That fact would have to be taken into account in an antidumping action against the automotive transmission even though Mexico may not have instituted an antidumping complaint concerning the South Korean component and even though the transmission exported to the United States by Mexico was sold at fair market prices.

This is a most mischievous amendment that could cause untold difficulties and costs to U.S. companies engaged in international trade.

Non-Market Economies

A major legislative issue concerning the countervailing and antidumping duty statutes deals with the question of whether there should be a pricing test for imports from non-market economies. Some believe that appropriate prices cannot be determined for products from non-market economies and that, therefore, there should be no pricing test but only an injury test. The issue is a major and timely one because mainland China has announced its desire to rejoin the GATT.

After examining the issue of whether there should be a pricing test in processing countervailing and antidumping complaints about imported products from non-market economies, ECAT recommends that there should be such a test even though construction of fair market prices will be somewhat controversial and artificial.

The Administration is expected to propose clarification of standards to determine whether non-market economies engage in predatory pricing practices or provide inappropriate subsidies. We shall examine these proposals and recommend an ECAT position, if necessary.

Section 337 - Protection of Intellectual Property

This is a section of trade law authorizing restrictions on imports that violate U.S. patent and copyright laws. Under present law both a violation of these laws and resultant economic injury must be demonstrated in order to achieve import restraints. It must also be demonstrated that the violation affects an industry in the United States and that the industry be efficiently and economically operated.

ECAT has recommended that the injury test be eliminated under Section 337 as well as the tests that an industry as a whole be affected and that it be efficiently operated.

Section 232 - The National Security Clause

This section authorizes the President to impose import restraints on products that impair or threaten to impair the national security. It has formally been invoked but once when President Eisenhower placed import restrictions on oil imports. Although not formally invoked by President Reagan, he did as a consequence of a Section 232 investigation concerning imports of machine tools ask several countries voluntarily to restrain their machine tool exports to the United States.

The legislative issue concerning Section 232 is whether the President should be required to act in Section 232 cases in a certain period of time. ECAT has recommended a reasonable legislated time limit.

Thank you for your attention.

Chairman GIBBONS. Mr. Handal.

STATEMENT OF PETER HANDAL, PRESIDENT, VICTOR B. HANDAL, BRO., AND CHAIRMAN, AMERICAN ASSOCIATION OF EXPORTERS & IMPORTERS [AAEI]

Mr. HANDAL. Thank you.

I am Peter Handal, president of the apparel company of Victor Handal, a company which has been dependent upon the stability of the international trading system. I am appearing before you as the chairman of the American Association of Exporters & Importers, which has 1,100 members. I am also a member of the executive committee of RITAC.

I am accompanied by Harold Paul Luks, AAEI's Washington representative.

Let me say we are opposed to sector specific legislation and quota auctioning. In particular, we believe the domestic textile and apparel industry already receives an unwarranted degree of protection from imports. On these matters, our group will be sending a separate submission to the committee.

Let us turn to H.R. 3. AAEI recognizes the depth of congressional dissatisfaction with the current account deficit. We do not believe remedies to this deficit are to be found in amendments to the trade laws to protect domestic industries from international competition.

The causes of the trade deficit have little to do with the operation of the trade laws. We attribute a substantial portion of the trade deficit to the appreciation of the dollar which began in 1981 and 1982 and the relatively faster growth of the U.S. economy relative to those of our trading partners.

Second, AAEI believes the most important element to a trade bill is a comprehensive and broad grant of multilateral negotiating authority to the President. The Trade Act of 1974 spelled out very detailed procedures to insure congressional oversight of the Tokyo round. These consultation provisions encouraged Congress to grant the President fast-track negotiating authority.

We believe the reauthorization of this fast-track authority is indispensable to the success of the new Uruguay round and should be the centerpiece of an omnibus trade bill.

Third, Mr. Chairman, Smoot-Hawley protectionism is easy to identify. It carries with it the planning of worldwide depression and bread lines. Protectionism in the guise of technical changes or clarifications to existing standards for providing import relief, automatic formulas to reduce unfair trade surpluses, or amendments which create potential financial liabilities or economic uncertainties for importers is still protectionism, nonetheless.

Let me discuss a couple of examples of this kind of protectionism in disguise. First, private remedies for injury in dumping cases. Enactment of this amendment would cast a chill over U.S. trade by exposing U.S. importers and consignees to punitive and retroactive damages for the damages resulting from dumping.

When we as importers purchase an article, it is based on price, quality, and the time of delivery. As businessmen, we have no idea what fair value means in the context of the antidumping laws.

In addition, there is no doubt this proposal violates article 6 of the GATT and the 1969 Anti-Dumping Code.

Next, with regard to opening foreign markets to U.S. exporters, section 301, H.R. 3 creates a complicated web of procedural requirements and restraints on Presidential authority. It is based on the false assumption that trade should be in balance country by country.

Second, it is also based on the false assumption the trade deficit has resulted from unfair foreign trade practices rather than the high value of the dollar and the large U.S. budget deficits.

Next, let us discuss the modification to the escape clause, section 201. AAEI supports the current 201 provision which holds that the President is in the best position to judge what is in the best economic interests of the United States. All of the proposals modifications lead down the road to protectionism even though they are disguised as adjustment, competitiveness or industrial revitalization.

Lastly, the scofflaw provision. This is a proposal which could effectively shut down honest and legitimate U.S. importers and exporters. Three violations over 7 years even by one company official could effectively close down the operations of a corporation employing thousands of American workers.

In conclusion, Mr. Chairman, AAEI urges this subcommittee to acknowledge and take into account the interests of U.S. exporters and U.S. importers in drafting an omnibus trade bill.

[The statement of Peter Handal follows:]

STATEMENT OF PETER HANDAL, CHAIRMAN, AMERICAN ASSOCIATION OF EXPORTERS
AND IMPORTERS

INTRODUCTION

Chairman Gibbons, and members of the Subcommittee, I am Peter Handal, President of the textile company of Victor B. Handal, Bro.—a company dependent upon the stability of the international trading system.

I am appearing before you as Chairman of the American Association of Exporters and Importers ("AAEI"). I am also a member of the Executive Committee of RITAC, The Retail Industry Trade Action Coalition.

AAEI is a national trade association comprised of approximately 1100 U.S. firms. Mr. Chairman, AAEI specifically seeks to represent exporters and importers and strives to ensure that our trade laws acknowledge the interests of both groups.

Our members are involved in every facet of international trade by exporting and importing a broad range of products for individual and industrial consumers. Members of AAEI also represent the service industries which serve exporters and importers, including customs brokers, freight forwarders, insurance carriers, and banks. Today, I am accompanied by Harold Paul Luks, AAEI's Washington Representative.

Mr. Chairman, our Association looks forward to working with the members of this Subcommittee and its professional staff to ensure that omnibus trade legislation strengthens the international trading system, thereby enhancing the economic welfare of the United States.

Mr. Chairman, AAEI and its Textile and Apparel Group ("TAG") are opposed to sector specific legislation and quota auctioning. In particular, we believe that the domestic textile and apparel industry already receives an unwarranted degree of protection from imports. On these matters, TAG will be sending a separate submission to the Subcommittee.

This morning, I propose to review three aspects of U.S. trade policy as they relate to the development of an omnibus trade bill. In this regard, I will:

First, briefly review the Association's current position on revising the trade laws of the United States.

Second, list several benchmarks by which AAEI urges the Subcommittee to evaluate amendments to the trade laws, and

Third, evaluate a number of proposed changes to the trade laws which would destabilize the international trading system and harm U.S. national economic interests.

I. AAEI'S POSITION ON TRADE POLICY AND THE TRADE LAWS

AAEI does not support the substantial revisions of the trade laws, including those pertaining to unfair trade practices, as proposed in H.R. 3 (or S. 490 now pending before the Committee on Finance).

A. *There has not been an increase in "unfairness" against U.S. exporters or domestic industries*

AAEI recognizes the depth of Congressional dissatisfaction with the U.S. current account deficit. However, we do not believe that remedies to this deficit are to be found in amendments to the trade laws to protect domestic industries from international competition.

H.R. 3 appears to be based on the assumption that the United States has become the victim of an international trading system which condones unfair trading practices. Those who hold this view maintain that "strengthening" the U.S. trade laws will correct this alleged unfairness and thereby reduce the current account deficit. We disagree! In fact, in recent years many foreign trade barriers have been reduced to the benefit of U.S. exporters.

At the same time, however, there has been a growing trend internationally to Balkanize world trade. As the GATT has reported annually for several years, an increasing percentage of world trade is "managed" by government-sponsored agreements, both formal and informal, to restrict exports and limit competition. The United States has been actively negotiating such restrictive trade agreements. In our view, attempting to enhance American competitiveness by trade restrictions and protectionism is a recipe for economic decline at home and abroad.

B. *The causes of the U.S. trade deficit have little to do with the operation of the trade laws*

AAEI attributes a substantial portion of the trade deficit to the appreciation of the dollar which began in 1981-82 and the emergence of strong international competition for markets once dominated by U.S. exporters. No member of the American business community can escape the adverse consequences on trade of the relationship between the budget and trade deficits—consequences which have overpriced many U.S. exports in international markets.

We urge this Subcommittee, and the full Committee, to examine carefully those factors which affect the ability of U.S. exporters to compete in world markets. Although a definition of competitiveness may be elusive, certain "problem areas" are identifiable which minimize U.S. competitiveness. These include:

1. The level of U.S. manufacturing productivity in general and within specific industries.
2. The level of private sector investment in new plant and capital equipment.
3. The level of U.S. personal savings measured against other major industrialized countries.
4. The level of U.S. civilian R&D and industrial innovation compared to those of our major international competitors.
5. The degree to which the U.S. educational system has responded to the challenge of the U.S. competing in an interdependent world economy.

C. *AAEI supports the establishment of a new national commission on trade law and policy*

AAEI believes that the most important element to a trade bill is a comprehensive and broad grant of multilateral negotiating authority to the President. The Trade Act of 1974 spelled out very detailed procedures to ensure Congressional oversight of the Tokyo Round. These consultation provisions encouraged Congress to grant the President "fast track" negotiating authority—a complex formula which guarantees that Congress will vote "up or down" on a multilateral trade agreement submitted by the President. Reauthorization of this fast track authority is indispensable to the success of the new Uruguay Round and should be the centerpiece of an omnibus trade bill.

Moreover, the reauthorization of this negotiating authority should not be held hostage to trade restrictive amendments to the trade laws. In fact, AAEI believes that substantive changes to the trade laws should result from a comprehensive, bipartisan, and broad-based review of these laws.

The last such review was produced by the Williams Commission in the early 1970s. The Williams Commission provided the substantive recommendations and intellectual foundations for the Trade Act of 1974. Most importantly, the Commission factored into its recommendations the multiplicity of U.S. interests affected by international trade.

Since that time, the world of international economics has been recast by foreign economic policies beyond our control and by the domestic economic policies of four Presidents. It is time for Congress to establish a new national commission on U.S. trade law and policy. Mr. Chairman, this is not a prescription for delay, but a call for reason and deliberation.

We recognize that political circumstances will not likely permit such a deliberate approach to revising the trade laws. If the train has already left the station, then we offer some guidelines to avoid a catastrophic collision between the United States and the international trading system—that would hurt our own best interests.

II. BENCHMARKS TO EVALUATE AMENDMENTS TO THE TRADE LAWS

Mr. Chairman, Smoot-Hawley protectionism is easy to identify. It carries with it the image of worldwide depression and bread lines. But protectionism in the guise of: (1) "technical changes" or "clarifications" to existing standards for providing import relief, (2) automatic formulas to reduce "unfair" trade surpluses, or (3) amendments which create potential financial liabilities or economic uncertainties for importers, is still protectionism.

In amending the trade laws, AAEL urges the Subcommittee to evaluate proposals by the following benchmarks.

1. Will the proposal enable the President to continue U.S. participation in the Uruguay Round?

2. Will the proposals assist U.S. negotiators to achieve the objectives of: expanding the scope of the GATT and the Tokyo Round Codes and improving multilateral consultation and dispute settlement procedures?

3. Will the proposal require unilateral actions which are inconsistent with existing multilateral or bilateral trade agreements, or contravene their basic purposes and objectives?

4. Will the proposal preserve the distinctions between laws which provide import protection from "fairly" traded imports and those laws intended to remedy "unfair" trade practices?

5. Will the proposal expand the definition of "unfair" to include foreign trade practices and U.S.-imposed penalties which are inconsistent with internationally agreed-to standards?

6. Does the proposal take into account the interests of individual and industrial consumers (including exporting industries which import foreign-made components) by taking into account the costs which may result from restricting imports?

7. Does the proposal take into account its effects on exporting industries in the event other trading nations enact "mirror image" legislation?

8. Will the proposal increase the predictability, transparency, and fairness of the trade laws—laws which are now at risk of rivaling the tax laws in complexity?

9. Will the proposal acknowledge that imports as well as exports contribute to our standard of living and that trade-related programs, such as adjustment assistance or the commercial operations of the Customs Service, should be funded by general revenues as opposed to user fees or other surcharges on imported goods.

10. Will the proposal substantially diminish the discretionary authority of the President:

(a) to ensure that the economic self-interest of one industry does not supersede the national economic interest in Section 201 cases,

(b) by imposing formulas for automatic actions—such as retaliation and import restrictions—in Section 301 cases, and

(c) by limiting Executive Branch discretion to settle countervailing and antidumping cases.

III. COMMENTS ON SPECIFIC TRADE LAW AMENDMENTS

Mr. Chairman, our trade laws have grown exceedingly complex and costly. Moreover, the laws regarding unfair trade practices have become difficult to administer due to the lack of clear and predictable standards and procedures. These problems are manifest in the countervailing duty and antidumping laws.

A. The Countervailing Duty and Antidumping Laws

In our view, the countervailing duty ("CVD") and antidumping ("AD") amendments proposed in Chapter 2 of H.R. 3 would exacerbate these problems. Amendments designed to benefit one industry, seeking to reverse a negative finding in a trade case by the Department of Commerce or the International Trade Commission ("ITC"), have the effect of increasing the level of import protection for other domestic industries. Some of the proposed amendments would:

1. Increase the likelihood of the Commerce Department identifying an import as benefiting from a subsidy or being sold in the United States at less than fair value [dumping].
2. Increase the likelihood of affirmative injury determinations by the ITC.
3. Increase the level of CVD and AD duties calculated by the Commerce Department.

Our purpose today is not to register the objections of AAEL to each CVD or AD proposal before the Subcommittee. AAEL will be submitting a detailed analysis of trade reform proposals. Today, I would like to describe the nature of our concerns by commenting on certain sections of H.R. 3.

Threat or cause of material injury

If Sections 132-138 became U.S. law, it is probable that foreign governments would enact mirror-image legislation to the detriment of U.S. exporters. For example, foreign governments would no doubt follow the U.S. example of defining as threatening or causing material injury (as does section 134) "any government plan or scheme * * * to assist [an] enterprise to * * * become more competitive in the export of merchandise."

Natural resource pricing

We believe that the issue of natural resource pricing is a matter for negotiation during the Uruguay Round. Section 135 is a two-edged sword which could invite retaliation against U.S. exports, particularly in agriculture. Only after natural resource standards have been established through negotiations would the United States have a basis for enforcement actions.

Private remedies for injury in dumping cases

The amendment creates a private right of action to sue for damages related to dumping. Its enactment would cast a chill over U.S. trade by exposing U.S. importers and consignees to punitive and retroactive damages for the "economic damages" resulting from sales at less than fair value.

The objective of this provision (section 138) is to provide antitrust relief comparable to that of the 1916 Antidumping Act without meeting its burden of proof—that is, by eliminating the requirement that the foreign producer acted with intent to injure, destroy, or prevent the establishment of a U.S. industry. There is no doubt that this proposal violates Article VI of the GATT and the 1969 Antidumping Code.

S. 940 contains several other CVD and AD proposals which may be brought to the attention of this Subcommittee. Two provisions in the Senate bill are especially troublesome.

First, in CVD cases the Commerce Department is given the authority to suspend liquidation of entries based on a mere allegation of subsidization. Currently, such action may only occur following a preliminary finding of subsidies accompanied by a massive increase in imports.

Second, S. 490 rejects the Commerce Department's current practice of determining the foreign market value of goods from nonmarket economies. The bill would establish a formula which prevents such goods from ever being considered under the trade laws as the lowest-priced imports.

B. Modifications to section 337

AAEL supports strengthening international rules and agreements to protect intellectual property rights. Chapter 3 of H.R. 3 proposes major revisions to section 337 by eliminating the requirement that petitioners prove that imports have substantially injured an industry efficiently and economically operated in the United States.

AAEL is concerned that these proposals will transform ITC 337 proceedings into fast-track patent infringement trials. Since 1974, more than 225 cases have been brought under Section 337. According to the ITC Trial Lawyers Association, approximately 70 percent of these cases have been settled by virtue of an exclusion order, a consent agreement or a settlement agreement.

Perhaps, the changes contemplated to Section 337 should be reevaluated against the requirements of the GATT, and the concept of national treatment.

C. Opening foreign markets to U.S. exports (section 301)

AAEI measures the success of Section 301 cases not by the number and degree of retaliatory trade sanctions, but rather by the success of negotiations to open foreign markets. As currently drafted, Section 301 provides the President with maximum flexibility and leverage in trade negotiations.

Yet, because H.R. 3 contains substantial revisions to Section 301 and because this Subcommittee may consider other 301 amendments, I would like to review briefly the following proposals.

Transfer of presidential authority to USTR

AAEI recognizes that Reorganization Plan #3 of 1979—in effect a bill signed into law by the President—established USTR as the senior trade agency within the Executive Branch. We see no compelling reason to increase the authority of the USTR at the expense of the President's authority. Because the USTR serves at the pleasure of the President, his recommendations are for all intents and purpose Presidential decisions.

Mandatory retaliation

AAEI opposes provisions which require (1) the initiation of 301 cases under a defined set of circumstances and (2) retaliation if cases are not settled within a fixed time period. H.R. 3 creates a complicated web of procedural requirements and restraints on Presidential authority, requires economic calculations of "excessive trade surplus" countries, and expands the definition of actionable foreign trade practices to severely limit the President's discretionary authority under the statute. The proposed revisions would increase greatly the likelihood of U.S. retaliation, but let us keep in mind that retaliation takes the form of U.S. import protection.

Retaliatory options

Because the President's retaliatory options are already substantial, AAEI does not support expanding those options to include denial of GSP benefits. The concept of conditionality was added to the GSP in the Trade and Tariff Act of 1984. Further restrictions on the program would not, in our view, serve the goals of U.S. international economic policy toward the developing world.

Sectoral reciprocity

In previous testimony, AAEI has expressed strong reservations about the concept of sectoral reciprocity, including trade in telecommunication products. Title II of H.R. 3 creates circumstances which could result in substantial import protection for U.S. domestic industries.

Mandatory retaliation in S. 490—adversarial trade

Mr. Chairman, the 301 proposal in the "other body" embarks upon the dangerous path of unilaterally establishing a new standard for retaliation—"adversarial trade." This legislation also ensnares the President in a web of findings and determinations designed to increase the likelihood of U.S. retaliation in the form of import restrictions.

D. Modifications to the escape clause (section 201)

Section 201 is the next area of concern and involves (1) the modification of standards to increase the likelihood of the ITC recommending import relief and (2) limitations on the President's discretion to reject or modify ITC recommendations. AAEI supports the current 201 provision which holds that the President is in the best position to judge what is in the best economic interest of the United States.

AAEI strongly recommends that the President retain the authority to assess the impact of ITC import relief recommendations on the national economy. AAEI does not support the transfer of Section 201 decision making authority from the President to the USTR. Decisions to provide Section 201 import relief can have far-reaching economic consequences, both domestically and internationally.

Neither the office of the USTR nor the ITC were intended to become de facto industrial policy/economic revitalization boards—but that is precisely the objective of the major 201 proposals before Congress. AAEI agrees with a statement in the Finance Committee's Report on the Trade Act of 1974 that Section 201 "is not intended to protect industries which fail to help themselves become more competitive. * * *

Neither USTR nor the ITC has the capacity to determine that an industrial revitalization plan (even one developed by labor, business, consumers, communities, and the federal government) will enable a petitioning industry to compete against fairly traded imports following the expiration of import relief. Governmental involvement

in the development of industry adjustment plans, prior to the ITC rendering an injury determination, substantially enhances the probability of the Executive Branch accepting an ITC import relief recommendation. The adjustment advisory group contemplated by H.R. 3 is nothing more than a mechanism to elevate the interests of one industry over the national economic interest.

AAEI believes that the exporting community and U.S. consumers must also oppose other 201 amendments which transform the President of the United States into an administrator for the International Trade Commission. A proposal now pending before the other body, in effect, obligates the President to implement ITC import relief recommendations when the Commission renders a unanimous injury determination. The proposal thus prohibits both the ITC and the President from measuring the costs of import protection for one industry against the costs to other competitive industries which are likely to shoulder the costs of 201 relief.

Lowering the injury standard

H.R. 3 specifically lowers the standard by which the ITC is to determine whether fairly traded imports are a substantial cause of serious injury to a domestic industry. Accordingly, the Commission would be obligated to consider (1) a decrease in the U.S. industry's market share, (2) the diversion of exports to the United States, (3) and the ability of the domestic industry to adequately finance its modernization. Other proposals before Congress would expand further the factors for determining threat of injury by including affirmative antidumping or countervailing duty determinations—thus blurring the critical distinction in the GATT between fairly traded and unfairly traded goods.

Short life cycle products (perishable commodities)

As a matter of general policy, AAEI does not believe there are any circumstances which warrant provisional import relief unless and until there exists a reasonable indication of serious injury or unfair trading practices. The application of provisional relief is simply unwarranted in the absence of a preliminary finding of injury or threat of injury.

In 201 cases, several proposals shift the burden of proof regarding injury from the domestic industry to the foreign exporter and the jurisdiction for injury determinations from the ITC to the Department of Agriculture and the USTR. "Guilty until proven innocent" is fundamentally inconsistent with U.S. trade law and our international obligations. The same objections arise in authorizing provisional import relief in the event of "critical circumstances" or perishable agricultural products.

E. Scofflaw provisions

Mr. Chairman, and members of the Committee, believe me when I tell you that I have not saved the best for last. Among the most extreme protectionist provisions before Congress is Section 175 of H.R. 3—a proposal which could effectively shut down major U.S. importers and exporters. The provision would deny the right of importation to a company found on three occasions to have been grossly negligent over a seven year period under the customs laws. Three violations, even by one company official run amuck, could effectively close down the operations of a corporation employing thousands of American workers.

Our Association is committed to working with the Customs Service to ensure the smooth and orderly processing of import and export documents. AAEI implores this Subcommittee to strip away this provision from an omnibus trade bill.

In conclusion, AAEI urges this Subcommittee to acknowledge and take into account the interests of U.S. exporters and U.S. importers in drafting an omnibus trade bill. This means recognizing that importers and exporters are essential components of the U.S. international trade equation. It means authorizing full participation for the United States in the new Uruguay Round. It means strengthening the export promotion programs of the U.S. Government. It means substantially restructuring the Export Administration Act to eliminate unnecessary impediments to U.S. exports. It means improving the collection, translation, and dissemination of foreign technical data. It means authorizing a thorough and broad-based review of our trade laws. But most importantly of all, it means coming to grips with U.S. domestic economic policies which profoundly influence the economic component of American competitiveness.

Mr. JENKINS [presiding]. Thank you very much.

Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman.

I thank our distinguished panel for their testimony this morning.

Mr. Archey, you made reference to the fact—and I certainly subscribe to it—that macroeconomic issues impacting on our trade deficit are probably of vastly greater significance in terms of the dollar impact than trade policy, *per se*.

We have had testimony before this committee more than once advising that even if you had total free trade operating in the world today, it would have no more than a 10- to 20-percent positive impact on our trade deficit.

Instead of \$170 billion last year, maybe it would only have been \$135 billion, which suggests we ought to look in some of the areas that have been raised here, not just in your testimony but I think in that of Mr. Meagher and other witnesses.

One of the concerns you express deals with the so-called Gephardt amendment.

I just wonder if you saw the Washington Post article of February 17 entitled, "Hill Democrats Pledge AFL-CIO Tough Trade Bill". It says

Democratic leaders promised the AFL-CIO yesterday they would pass a tough, restricting trade bill that President Reagan is almost certain to veto.

Then the spokesman for the Communications Workers of America went on to say that, in effect, such a provision as the Gephardt amendment—and maybe our colleague, Mr. Pease's amendment, too—would provoke the Presidential veto.

You have indicated that those are two serious reservations you have about what a finished product might look like. They went on to say that Senator Bentsen's proposal is an empty box.

What do you feel will be the consequence if both of these provisions remain in the final product—the veto does take place and the veto is overridden, and this becomes an integral part of U.S. trade law?

Mr. ARCHY. I think it is difficult to predict an entire scenario. Assuming what you say occurs, we think it would be very detrimental overall to U.S. trading interests. We think that—I would also note, though, Mr. Crane, that in today's paper there was an indication that some counter-arguments to that, that—and I was quoted in the Washington Post a couple of weeks ago, and I meant it quite seriously, that I think the Congress is very seriously trying to address this problem of the trade deficit and is going to be, in my view, very responsible.

But I think that the interesting thing when they mention Senator Bentsen's bill is an empty box. I would like to join or make mention which we had last year, and note that the Senate bill last year, S. 1860, which was quite bipartisan, was actually a tougher bill in terms of unfair trade practices than was the House bill, H.R. 4800, now H.R. 3, on the issue of mandatory retaliation. There were virtually no outs for the President.

We acknowledge that there are a number of outs with the Gephardt amendment in terms of national economic interests, countries that have a debt burden problem. There is the other generic override regarding possible harm to agricultural exports.

So they are in there; but I think our view is that the notion of attacking countries on the basis of the trade surplus of the United

States is not only arbitrary, but I think it is going to lead to all kinds of retaliation and is not the way we would suggest going.

On the other hand, what we are saying is that we ought to use section 301 much more aggressively. And to go back to your other point, we feel very strongly at the chamber, Mr. Crane, that you are absolutely correct. If you get rid of all the unfair practices we are talking about, \$15 billion, maybe \$20 billion, best estimate.

On the other hand, this notion of unfairness overrides the debate. It pervades it. There is a sense of being had. We sent a letter out to the Fortune top 1,000 companies, Dr. Leshner, the president of the chamber, in which we noted this aspect that the unfair aspect overwhelms the overall debate.

You don't get to macroeconomic issues, about why we feel you ought to take strong 301 action. It is very interesting. Even among some of our bigger companies who are very successful exporters, they totally endorsed that point of view.

Mr. CRANE. Thank you.

I would like to address a question to our distinguished former head of staff here on the Ways and Means minority side, John Meagher. It is your contention, John, that the primary cause of our import problem is the budget deficit; and that it is the direct result of the trade imbalances. You cited the loss in 1985 of \$28 billion in revenues.

Our increase in Federal spending went up 11 percent that year, John. Eleven percent of that budgetary year would have been in the neighborhood of \$90 billion or maybe a little more in aggravation of the budget deficit in contrast to the \$28 billion under your formula.

I would argue a bigger component is still our failure to get a handle on total spending. You cited the hypothetical case of the steel worker with a \$20 an hour income. You said if he were preserved in his job, he would have added another \$4.8 billion to revenues that otherwise would be lost if he goes to the \$14,000 job in some service industry.

Would this suggest that if we doubled his wages in steel to 40 bucks an hour that we could double revenues to \$9.6 billion and then tax all imports coming in at the borders as an offset, and we would net another \$4.8 billion windfall from that source?

Mr. MEAGHER. Sure. No question about it. We could make it \$80. Then we would solve our budget deficit.

I acknowledge, as usual—I guess I perhaps overstated the case somewhat in my testimony, in my prepared testimony. I was trying to make an argument to show the order of magnitude of the fact that imports are having a significant impact on our revenue flux. While it is fair to say we increased our spending, and we did, the question is where we increased it and why.

One of the places that we increased spending greatly in in the last 6 years was in defense. We felt we needed to do that for good and sufficient reasons. I think it is also fair to point out we are providing the defense for a great deal of the world that is sending imports into this country on a tax-free basis and not paying the share of its burden of the defense.

We are, in fact, defending the world. We are paying for that. They are not paying for it and it seems to us that you have to ask

the question should they pay either—for defense, if that is an increase in our budget, or for the share of the marketplace that they have enjoyed in bringing imports into this country?

If they don't do either, it seems to us they have the best of all worlds.

Mr. CRANE. My time has expired, John. I would only say that might be a way of circumventing a Japanese restriction on the percentage of GNP that could be spent on defense, which we imposed on them after the war. On the other hand, our concern about a disarmed Japan in the postwar world was what triggered that.

It was an American policy. It is very difficult at home for them to alter it. Maybe the offset will indirectly get them to fund our Defense Establishment through the imposition of some import tax.

Mr. MEAGHER. Or part of it.

Mr. CRANE. Thank you.

Chairman GIBBONS. Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman.

Does either the chamber, Mr. Handle, support Mr. Meagher's proposal about taxing imports?

Mr. HANDAL. I was plenty surprised to find out we didn't pay taxes. Our company pays about a 46-percent tax rate. I think another comment I would make on Mr. Meagher's numbers, and I have not read the numbers—that in the presentation he has made, but that it must in some sense be offset by the taxes that exporting companies pay as well.

Mr. JENKINS. You represent textile groups, importers and exporters, 1,800.

Mr. HANDAL. 1,100.

Mr. JENKINS. How many of those are engaged in just exporting?

Mr. HANDAL. About half of our members are engaged in exporting.

Mr. JENKINS. Just in exporting?

Mr. HANDAL. No. Exporting and importing.

Mr. JENKINS. How many are engaged in just the export business?

Mr. HANDAL. I don't have the figure.

Mr. JENKINS. Do you have members solely engaged in export?

Mr. HANDAL. We do have members, I am sure, that are just exporters. The figures that we have are 1,100 members of which half export.

Mr. JENKINS. Mr. Archey, according to the Department of Commerce, there are about 300,000 concerns from the smallest to the largest engaged in manufacturing in the United States. Less than 10 percent of that total is involved in exporting. According to their statement, the chamber represents 180,000 businesses, 19 percent of whom are according to your statement—have fewer than 100 employees.

How many of those are engaged in exporting?

Mr. ARCHEY. I wouldn't have the exact figure. It is very small.

Mr. JENKINS. Most of the exporting is done by the 9 percent of your members above that 100 employees; is that right?

Mr. ARCHEY. There were figures, Mr. Jenkins, from the Commerce Department when I was working there that said that something like 70 or 80 percent of all U.S. exports are a function of about 120 to 130 companies.

Mr. JENKINS. When you point out that you represent 180,000 firms, do you do a poll with all of these people on your positions as far as trade laws?

Mr. ARCHEY. What we do is we have a very elaborate policy committee structure. The international policy committee happens to be the largest standing committee in the chamber, almost 100 people, representing the entire cross section of our members with a large number of small business members.

There is an executive committee of that. Then their recommendations go to the board of directors of 65 members which in turn represent—we feel—a cross section. It is a process that is a consensus process with lots of fights. As I mentioned to you in my testimony, for example, on some of the issues of diversionary dumping, some of the 201 issues, on the 201 we are back revisiting the entire issue of 201 this month.

Mr. JENKINS. I speak to a lot of chamber groups in my district. I can't find any that support your position. I didn't know whether they had been polled or not.

Mr. ARCHEY. I think we could find a few; I could get back to you on that to support our position.

Mr. JENKINS. I would like to know which chamber it is in my district.

Let me ask you what your position is on 301, 201. Is there anything in the proposed bill as it relates to 201 that you support?

Mr. ARCHEY. We support, as I mentioned in my—both in my prepared statement and in my synopsis—that under 201, H.R. 3 enforces—requires the estimating of effects on release—the relief on consumers and domestic competition.

Mr. JENKINS. I understand that. That portion of it that has to make a statement as to the effect on consumers. Is there anything else in that that you really support?

Mr. ARCHEY. We do not support the establishment of an industry advisory group, but we—basically the 201 proposals in H.R. 3 are not that dramatic.

Mr. JENKINS. I saw nothing in the proposed changes as far as 201 that the chamber supports?

Mr. ARCHEY. I think that—I noted what we did support. I think on the others, no, we don't.

Mr. JENKINS. As far as section 301, and you either oppose or take no position on any of the provisions. So the chamber does not support any of the proposed changes in 301?

Mr. ARCHEY. That is not correct. We support very strongly the element in section 301 that requires mandatory retaliation if it violates the trade agreement which is separate from Gephardt. There are two separate sections regarding retaliation.

Mr. JENKINS. The way I read your position and your diagram, you say support use of 301 as a vehicle for responses to targeting but oppose mandatory retaliation.

Mr. ARCHEY. Unless it violates a trade agreement. If it violates a trade agreement, we are saying mandatory retaliation should take place. There will be instances with export targeting because it is a very difficult phenomenon to define. It is not likely at the present time that that is going to violate a trade agreement because export

targeting is not the subject of either a bilateral or multilateral agreement.

That is what we are saying on that.

Mr. JENKINS. I know my time is about up. I am trying to find which portion you really support. As far as the education and training, you support the strengthened educational programs, but oppose new Federal funding? What does that mean?

Mr. ARCHEY. You are looking at the side-by-side that we submitted. We are in favor of the new Federal funding of the worker adjustment program and the administration proposal.

Mr. JENKINS. The \$2 billion?

Mr. ARCHEY. The \$1 billion for worker adjustment assistance.

Mr. JENKINS. Plus the other that is already in there?

Mr. ARCHEY. We are in favor of that. Side by side on that section, I apologize, Mr. Jenkins, that was prior to the administration announcing how it was redoing the worker adjustment. So that would be incorrect. WE do endorse the new funding in the new program and agree with Bob McNeill about the fact we think it ought to be out of the general fund.

Mr. JENKINS. My time is up.

Mr. PEASE. Thank you, Mr. Chairman. Thanks to all of you gentlemen for your testimony. I think it is especially helpful that you were quite specific in indicating what sections you approved and what you did not approve of. I am really very thankful for that.

Mr. Archey, I would like to begin with you, not surprisingly, regarding your comments on worker rights.

You say in your testimony the chamber would oppose the inclusion of worker rights and the reason you give is that such a condition is arbitrary and would be unworkable.

Why, in your opinion, would it be unworkable?

Mr. ARCHEY. First of all, I think that we are dealing with—we are dealing with labor practices in a trade bill which is new ground. No. 2, I think when you get down to the definition of what constitutes particular workers' rights in terms of whether—of collective bargaining, or whatever the other procedures are called for—that I think it is us telling other countries whether that is correct or not.

I think that the other thing that has indicated in the last few weeks is that a number of those provisions that you call for in that, even the United States itself hasn't endorsed them within the context of the ILO.

Lastly, I think one of our concerns is that what happens with countries, for example, in the EC who will come back to the United States and say that,

You know, we have labor members on boards of directors. We have labor members on national policy councils. You don't have those, therefore, you are in violation of workers rights.

We just think it is a very difficult concept to administer, to define, and we don't think it belongs in the trade bill.

Mr. PEASE. I am not sure which of those comments applies to the workability of the worker rights provisions, but I will sort them out at my leisure.

I don't expect you to be a historian as far as the Chamber of Commerce is concerned, but do you happen to remember whether 40, 50 years ago, 20 years ago, or 10 years ago, as the case may be, the chamber supported collective-bargaining rights for American workers or a minimum age for employment or minimum wages for American workers or occupational safety and health for American workers?

When OSHA came up, for example, did the chamber urge Congress to support that?

Mr. ARCHEY. At the expense of being accused of coping out, I have been in the chamber exactly one year ago today. I don't know what the history of that has been.

Mr. PEASE. I have an idea that the chamber did not come forward and urge Congress to adopt those things, so I suppose it is only reasonable that if you didn't think American workers ought to have those rights that you wouldn't be in favor of foreign workers having them either. I applaud you for your consistency in that position.

Let me now turn to Mr. Meagher. I know my time is going on.

Mr. Meagher, I read a good deal recently about theories of economists that the American fiscal deficit is the direct cause of our trade deficit. You are breaking new ground in your testimony by saying that you think the trade problems are causing our fiscal deficits.

I just want to commend you for breaking that new ground. I think it is worthwhile looking at.

But I really want to talk with you about your proposal on a minimum tax on imports. Do you think there is any way to levy a minimum tax on imports which would not be a direct violation of GATT?

Mr. MEAGHER. Yes, I do. I think there are a number of ways. You can do a business transfer tax kind of mechanism that would—has been proposed in the Senate. Congressman Schulze has a version of that, which I think, is much preferable called the business alternative minimum tax [BAMT]. It is GATT legal, and imposes a tax on both domestic and foreign transfers of property.

Then it allows a credit of American taxes against that tax. If you don't pay any American taxes obviously you don't get the credit. So I think there are ways of doing that. It is not simple, but there are ways of doing it. In fact, some of them are proposed already.

Mr. PEASE. I just wanted to clarify that. When you say a minimum tax on imports, you are thinking of something like a business transfer tax which would apply to American companies as well as imports coming in?

Mr. MEAGHER. That is one way of doing it. I think that is probably the most GATT legal way of doing it, given the GATT rules today. There are other ways people are looking at right now. We are studying a couple of other concepts. Whether they are GATT legal will depend upon how they end up, obviously, to see if there is a way we can do it to provide alternatives to the business transfer tax. It has some difficulties with it.

Mr. PEASE. Sure.

Mr. MEAGHER. Tax writers for the most part are ingenious people, as is evidenced by what has gone on here in the last 50 years. I think there are ways of doing it, yes.

Mr. PEASE. Thank you.

You made another contribution, a good one, I think, to our discussion by mentioning the fact that Japan has recently instituted cuts in its income tax at the same time that it has increased the rates for a value-added tax. I think it is important that we all keep that in mind, essentially at a time when the Japanese are being pressed to encourage more consumption, encourage imports.

What they have done in their tax policy is to cut the income tax to put more money into the hands of consumers or individuals and say that we put this in your hands, and the only way you can keep it is not to spend it. So if you take your income tax savings and put it into a banking account, a savings account, you can keep it, but if you spend it on something, then you cannot.

It seems to me that that is just going exactly the opposite from the direction that we and other economists think the Japanese ought to go.

Mr. MEAGHER. I agree. There is an excellent piece that summarizes this in the paper yesterday that Mobile Oil had that describes in detail what their tax system does, and how they have written a tax law like the one you wrote last year and added a value-added tax.

The word is—and they have to speak for themselves—that that value-added tax, Congressman, that is going to start at 5 percent, will ultimately go to 20 percent. That is their goal. You can open the market all you want, but the price of the product is not going to be one that is going to be competitive in the Japanese market if we export in there.

There is another comment I would like to make. You have a proposal in your bill which I read the summary of yesterday, that I think it is very important. That is the competitiveness impact statement on budget—line item budget. I think if there is nothing else the Congress can do, and I sincerely mean that, in the competitiveness area other than trade reform, that might be the most important.

It will tend to focus the issue of competitiveness on an ongoing basis. Does this program that you are about to enact, that program, or does an existing program, increase or decrease our ability to compete in the world? Our view is that it is not trade problems that impact on our ability to compete, but rather other policies, whether they be in social insurance or what not, that increase our costs of production relative to our competitors, and therefore render us less able to compete.

The kind of statement, competitiveness impact statement, that your provision would demand and require seems to us to focus on that and make people who are making policy decisions ask that question. Is this going to help or is it going to hurt? It will also give us in the private sector an ability that we do not now have, except in a very general way, to focus in on how it will impact on this specific product-by-product, industry-by-industry basis.

Mr. PEASE. Thank you, Mr. Meagher. Thank you, Mr. Chairman. Chairman GIBBONS. Mr. Guarini.

Mr. GUARINI. Thank you. John, good to see you again. I agree that something should be done on value-added. In fact, Nakasone now has a great political problem in Japan. I understand there has been a storm created and many of the storekeepers and people in Japan are very resistant to this 5 percent sales tax that has been added although it was a good economic decision.

It was apparently an unfortunate political decision, and we on this committee have had some experience in the past with the politics of value-added. Everybody pulled in their horns. I just came back from the common market. They delight over the fact that in the original GATT regulations, that they were able to deduct at their border their value-added tax. That has kept us at a considerable disadvantage.

So if we can add that value-added tax at our border, what you say would probably be more equitable, but—or they can't subtract it at their border, if you want to look at it the other way. There should be something that is done to address what was a very generous provision that we made in the original GATT allowing them legally to make that deduction.

It is one of the early times where our industries thought and our country thought we could support the whole world and open all our markets to everybody and not care whether they closed their markets to us. But times have changed. I would like to ask you, John, what do you think can be done to keep our factories and our jobs more at home rather than the out sourcing that has been happening?

Mr. MEAGHER. I think to be honest about it, you would have to tax imports. I think that is at the core of it. I want to say that I worked here with Chairman Ullman when he was chairman. I am not unsympathetic, nor unaware of the political difficulties that this issue raises. I am not advocating today a value-added tax.

I don't think you can do it in one fell swoop. I don't think we know enough about it. I don't think it has been studied enough at this point. It seems to me, being what Barber Conable used to call raging incrementalist, we need to take the first step toward that.

The BAMT is one way to look at it. I am not sure that isn't too big a step. I think we need to take a step toward dealing with taxation of imports. As far as factories are concerned, about half—in the steel business, about half the steel that comes into this country comes in in the form of products, not commodity.

In other words, it is a part of an automobile. It is a section of an airplane that comes in. That is about 50 percent of the imports that come into this country in steel. In the steel business, we feel in the future our existence is dependent upon the macro economic policy that will determine whether or not we have a customer base.

In other words, whether those auto parts, or whether that airplane part is going to be manufactured here. That this why we are looking to a broader solution to deal with the question of producing here versus producing off-shore.

We had a plant, just to give you a very specific example—I wish the chairman were here—we had a plant in East Chicago, Ill., that employed 3,800 workers 5 years ago. It added \$300 million to the Chicago economy, paid taxes to the city and State of Illinois of \$18 million a year. That plant is closed.

Why did it close? It closed because the principal customer of that plant, which was Caterpillar, decided to build its tractors in Dublin, Ireland, and Grenoble, France. When they made that decision, we phased out 3,600 employees because we didn't have customers for the parts made there.

Why did they go to France and Ireland? Because there were good tax breaks, because they got tax holidays, low wages, low social insurance costs, low environmental costs, low capital costs. The bottom line is their cost of production was significantly lower than it was in Peoria, IL. So a certain number of Caterpillar workers lost their jobs and 3,600 LTV steel workers in Chicago lost their jobs.

We have to do something about our marketplace, about our customers if we are to survive, and also Caterpillar obviously has to worry about whether it is competitive with the Japanese or the Germans' farm equipment manufacturers for its customers and its marketplace.

[The following was subsequently received:]

BIC

BASIC INDUSTRIES COALITION, INC.
 Suite 511
 1025 Thomas Jefferson Street, N.W.
 Washington, D.C. 20007
 (202) 944-5737

February 19, 1987

The Honorable Dan Rostenkowski
 U. S. House of Representatives
 2111 Rayburn House Office Building
 Washington, D.C. 20515

Dear Mr. Chairman:

During the question period subsequent to my testimony before the Trade Subcommittee on February 18, 1987, in response to a question, I made the statement that as a result of John Deere & Company's decision to move production of certain equipment off-shore, LTV had to idle large portions of our South Chicago Bar facility which employed over 3000 workers. Unfortunately, it was Caterpillar Company, not John Deere, which moved production offshore. This mistake was immediately brought to my attention by Deere representatives, and I wanted to advise you of my error and clarify the record.

I regret this error.

Sincerely,


 John K. Meagher
 Chairman

cc: /Rufus Yerxa
 Thelma Askey
 Dean Dort, Deere & Co.

To promote an awareness and understanding among national policymakers and the general public of the importance of basic industries to the economy of the United States and its national security.

Mr. GUARINI. Where we repeal the ITC, and extend depreciation, other things we have done certainly hasn't helped our trade situation? It has been counterproductive to it, hasn't it?

Mr. MEAGHER. I want to be a little hesitant about that. I thought somebody might ask me that question as I was driving in here this morning. I always thought the ITC frankly was an inefficient subsidy. That is my personal view.

The reason it was inefficient in my view is because it was not refundable. In effect, what it did in the economic sense was to take money from the poor and gave it to the rich. The cost of a piece of equipment for a company that could utilize depreciation and the ITC was in effect 30 percent less than somebody that couldn't utilize those tax benefits; so while those incentives are important, it seems to me if they are to be looked at again, they ought to be looked at in a different way.

They ought to be looked at in a more efficient way to support not only companies that are making money, but companies that need the subsidy at the time that they are in difficulty in order to help themselves regain the competitive edge.

Mr. GUARINI. Would you buy the provision now which we passed in this committee a couple of years ago?

Mr. MEAGHER. Yes.

Mr. GUARINI. Mr. Archey, in the Chamber of Commerce, the world is becoming very, very close and very, very small. The chamber has a large group within the United States. Inasmuch as there are American chambers of commerce in almost every country in the world, I wonder what is being done by the Chamber of Commerce here to keep some kind of an interaction with these Americans that have formed their own chambers in other parts of the world?

In the changing business world we are in, is the chamber doing anything, and are they in the forefront of sort of utilizing the strength we have in other countries by closer communication and contact?

Mr. ARCHEY. Mr. Guarini, there are 56 American chambers of commerce abroad. They come directly under my purview. We, in fact, charter or certify all of those American chambers. They are independent in terms of policy, but they basically are members of the U.S. Chamber family.

Mr. GUARINI. When I was in France, they told me they haven't heard from you very much.

Mr. ARCHEY. Where in France were you? I just met with the president of the American Chamber of Commerce 2 months ago. For 2½ days, I saw him a little taken aback by the fact they might make that assertion. The other thing I might note to you is that the American chambers in the Pacific, the American chambers of Latin America, which number 22, and 14 in the Far East, we have submitted, I believe, to this committee their list of going beyond the USTR foreign trade barriers report of the most significant trade barriers in their countries.

Mr. GUARINI. You do involve them?

Mr. ARCHEY. Absolutely.

Mr. GUARINI. When you come before us, you do represent their views?

Mr. ARCHEY. As I have in my testimony, I didn't say in my synopsis, but in my testimony, we appreciated the committee's staff particularly working, not just with the U.S. Chamber, but with our overseas affiliates. The other thing I would note is that a large number of our American chambers overseas come here every year—for what they call the Washington door knock.

They have met with a number of the members of this committee every year, and then they—we usually have meetings twice a year in the country of location and here, but they are very active, very involved with the issue of trade, and it is a mixed bag, Mr. Guarini.

In some instances, some of the people who are American businessmen in some of the countries, have a certain "don't rock the boat" view.

Mr. GUARINI. I imagine the attitudes would be different because in the Far East they love GSP and in the common market they have a different view.

Mr. ARCHEY. But I would say on their behalf, though, that the Asian Pacific Group, which is the 14 countries of the American chambers, have probably done as good an analysis of the trade barriers in the Pacific basin as any institution has done, and we have provided that. We haven't provided it to this committee. We have provided it to a number of committees on the Hill, directly to Clayton Yeutter's office, and if we haven't, I will make sure you are provided with it.

Mr. GUARINI. Thank you.

Mr. LEVIN. Thank you, Mr. Chairman.

Mr. Handal, on page 2 of your testimony, you say, "AAEI and its Textile and Apparel Group, TAG, are opposed to sector-specific legislation and quota auctioning. In particular, we believe that the domestic textile and apparel industry already receives an unwarranted degree of protection from imports."

On your Textile and Apparel Group, is it composed mostly of importers, exporters? What is the composition of the group?

Mr. HANDAL. The group consists primarily of importers and retailers, sir.

Mr. LEVIN. You say, "On these matters, TAG will be sending a separate submission to the subcommittee." When you send that submission, would you give us as much detail as you can on the makeup of the committee, of your subcommittee, or of the committee, your group, TAG, and their levels of imports and exports?

Mr. HANDAL. Certainly.

Mr. LEVIN. Mr. Archey, there was reference in your response to Mr. Guarini about surveys by the groups in the Pacific basin, and we have had considerable contact with them on some issues, including auto parts, and they have lined out rather vividly the barriers that exist in various countries.

Let me refer to page 4 of your testimony, one of the numbers, where you say "the chamber strongly supports provisions of H.R. 3 which would mandate retaliation against foreign trade practices that violate international trade agreements," but you oppose any kind of mandating where there is not a violation of an international trade agreement. Let me ask you about that distinction.

For example, in Japan with the construction of their second international airport, your members have laid out clearly, not all

of them but various members, the restrictive practices being undertaken by the Japanese. They are as palpable, as clear as can be. They don't violate international trade agreements. Why should there not be a mandatory retaliation?

Mr. ARCHEY. I think, to take it in step, we feel very strongly that we are one of the very few business groups that in fact officially and overtly recommend mandatory retaliation for violation of a trade agreement under 301. Others say use all possible actions, but we use the word retaliation.

We think it ought to be for trade agreements because we think that there is an obligation on the part of that country to adhere to certain agreements that were made with this country. There is, we believe, for example, in Korea, a 1955-57 treaty with Korea that lays out all kinds of things like national treatment of U.S. companies and things like that, and we think that in many instances there that is violating a trade agreement.

Mr. LEVIN. I understand that.

Mr. ARCHEY. The reason we don't want to go beyond that doesn't mean we don't endorse the notion of using 301, and of in fact going after those unfair practices, but we think that if you go beyond violation of the trade agreement, you are inviting mass retaliation in areas that I think will invite counter retaliation, that probably are going to be in violation of certain GATT agreements, and that we think will ultimately be more counterproductive.

We think if you keep it restricted to the trade agreement thing, that there is a much more compelling reason to do it.

Mr. LEVIN. But the percentage of trade covered by international trade agreements is quite small. Why do you think there will be no retaliation if there is mandatory action under an international trade agreement, but massive retaliation if there is action where there isn't an international trade agreement? I don't see why you draw an absolutely rigid line there, especially when you are including relatively little.

What percentage of our trade is covered by international trade agreements?

Mr. ARCHEY. I don't know for sure, but I will say one thing, Mr. Levin. I am not talking just about an international agreement through the GATT. There are a number of bilateral agreements with the Japanese, with the Koreans, with the Taiwanese, that have been in existence for quite some time. They cover a number of things.

Mr. LEVIN. What percentage of our trade with Japan is covered by international trade agreements?

Mr. ARCHEY. I don't know.

Mr. LEVIN. If it were less than 10 percent, would that give you some pause?

Mr. ARCHEY. I don't know. I think that what we are trying to do is be very cautious but very aggressive about how we frame the notion of retaliation under 301, and it doesn't go as far as you would like to go, but we feel comfortable in emphasizing the agreement aspect of it.

Mr. LEVIN. I am not sure how far I want to go. This is what we are trying, all of us, to figure out. But you say you want to be aggressive and cautious. If you are being aggressive about a small

percentage of trade, you end up being much more cautious than aggressive. No?

Mr. ARCHEY. Not necessarily.

Mr. MCNEILL. Mr. Levin, could I just address something here? If you look at U.S. trade, and you look at the U.S. tariff schedules in the Tariff Act of 1930, I think you will find that there are probably 7,000 or 8,000 tariff positions, and I think you will find that probably 98 percent of those tariff positions are subject to agreements under the GATT. I would, therefore, judge that close to 100 percent of U.S. trade is subject to trade agreement.

Mr. LEVIN. But that isn't what we are referring to, because almost everybody acknowledges that the issue between the United States and Japan, for example, has virtually nothing to do with tariffs.

Mr. MCNEILL. I was addressing your comments, sir, your question about how much of U.S. trade is subject to international agreement.

Mr. LEVIN. But the question is, how much of the practices is covered by international agreements?

My time is up. I just suggest that in essence when you limit your sweep, your vigorous, aggressive action to actions that are covered specifically by international trade agreements, you are leaving out much of the problem, most of the practices that are in the end the nub of this issue, and so what becomes aggressiveness and caution I think becomes much more caution.

Mr. ARCHEY. I think what we are saying is that in the instance of Japan, there may be a number. We have now got the semiconductor agreement; it is a bilateral trade agreement. In Korea there are a very large number of their practices are unfair and subject to retaliation, because of a treaty with Korea that dates back to the 1950's. We are simultaneously saying that a number of these issues of unfairness to expand what they are, like diversionary dumping, and a number of those ought to be the subject of the Uruguay round.

We are not saying let's ignore them, but in fact let's come to some greater international agreement about what some of these practices are, and let's see if we can get an agreement with all of our trading partners to stop them.

Mr. LEVIN. And then, to sum up, you in essence favor more and more bilateral or multilateral agreements, and once we have those agreements, you would favor mandatory retaliation?

Mr. ARCHEY. That is correct.

Mr. LEVIN. Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. McNeill, in your testimony, you gave some timely mention, 5 years on a proclamation of tariff reductions, and then you said a much longer time on the fast-track of the substantive negotiations. Why such a long time on the fast track? Based upon your experience, doesn't it seem that 5 years is a long time to negotiate on something? It is to me. Why couldn't we have a fast track and the proclamation time even shorter than the 5 years?

Mr. MCNEILL. I think in the case of matters such as a code for the protection of intellectual property, or a code providing rights and obligations in respect of foreign investment insofar as trade-

related aspects of foreign investment are concerned, that they are terribly technical and difficult areas that may not be subject to being completed even within 10 years.

I would see the future of the negotiations in the nontariff field as being sort of a permanent, ongoing negotiation, and if one views it in that perspective, then a 10-year timeframe even may be short.

The problems that are besetting the conduct of commerce internationally are increasingly difficult, and I think therefore that the timeframe that we have suggested is reasonable.

Chairman GIBBONS. I am sorry. I missed the last part of your statement.

Mr. McNEILL. I was simply saying I think that the negotiations in the nontariff area will deal with subject matters that are new, subject matters for which there are no precedents in international law that will require very substantial periods of time for conclusion, and that is why I think a 10-year period for the nontariff negotiations is not an unreasonable period.

Tariffs are more subject to being treated in the shorter timeframe, and that is why 5 years seems to make a little more sense.

Chairman GIBBONS. It seems like to me that 10 years is an interminable time. I realize it is not very long. Claude Pepper has been around 50 years, but 10 years is one fifth of his time. That would be a long, long time.

We just don't operate on that kind of timeframe around here. I think the people that would be here 10 years from now, if they got started on that negotiation, would probably never remember why we started negotiations to begin with. There has got to be some kind of institutional memory of what we are doing, or I don't think these negotiations will ever be completed.

Mr. McNEILL. Your points are very well taken, Mr. Chairman. I would argue for the longest period of time I could get.

Chairman GIBBONS. Frankly, I would like to move the tariff thing up to about a 2-year timeframe. I don't know why the tariffs couldn't be done in 2 years, and I don't know why, if we are going to put some pressure on these people, why we stretch it out 10 years.

I just don't think the political system will stand still that long in this country for it. We need some kind of hopeful results. People are extremely dissatisfied out there. Whether they are correct or not, they are extremely dissatisfied about the position we are in.

I recognize that changes that are the subject of trade legislation are not going to change the whole economic picture in a short period of time, but people want trade legislation that is effective, and I think too long a time would just signal to our own constituents, well, that is never. That is never.

Mr. McNEILL. I would contemplate, Mr. Chairman, that the results would be brought back to the Congress for the fast-track procedure as they are concluded, so during whatever timeframe the Congress authorizes the President to negotiate, that it might be 18 months after that, he might bring back a code on subject X, and 2 years after that on some other thing. So I would see this as a continuum with matters being brought back for the fast-track procedure as they are negotiated. That is why I think a longer timeframe might make sense.

Chairman GIBBONS. On the intellectual property, couldn't we do that one in a relatively short timeframe? We are talking about copyrights, patents and things of that sort.

Mr. McNEILL. A lot of the problems here, Mr. Chairman, are bilateral, and I think that they will be negotiated regardless of what goes on in Geneva. I think the Geneva negotiation, which will involve a lot of countries trying to negotiate a code to which they can all accede, is going to take an awful long period of time.

In the meantime, I can see agreements with South Korea, Taiwan, and other countries on bilateral problems being addressed and settled as they arise, and that timeframe would be much shorter.

Chairman GIBBONS. Thank you very much.

Are there further questions of this panel?

Thank you very much.

Chairman GIBBONS. Our next panel is the American Business Conference, Computer & Business Equipment Manufacturers Association, Computer & Communications Industry Association, Mr. Lilley, Mr. Henriques, and Mr. Black.

Mr. Lilley, if you will just lead off.

STATEMENT OF WILLIAM LILLEY III, PRESIDENT, AMERICAN BUSINESS CONFERENCE

Mr. LILLEY. Thank you, Mr. Chairman, and thank you for inviting the American Business Conference to appear.

Let me say a quick word about what the American Business Conference is. It is an organization of 100 chief executive officers of midsize, high-growth companies. The range is between \$25 million and \$2 billion in revenues, the average revenue \$370 million. Average growth of the companies is 35 percent per year. They create on average new jobs of 14 percent per year. The companies are evenly spread across manufacturing, high-tech manufacturing and the service sector of our economy.

The reason why we are here today is to share with you the findings of an extensive survey we began of our members last fall as to the whole issue of international competitiveness and trade. We asked them four questions. We asked them how important that issue was to them. We asked them how they were doing. We asked them what problems they were having, and we asked them what they wanted the Federal Government to do about those problems.

Each of you have a copy of that report before you. It is a gray booklet with red print on it titled "The Challenge of Global Competitiveness."

There are two surveys, two appendices in it. The first appendix is the survey we asked the members, and the second is the 100 companies that belong by city, the name of the CEO and what the companies make.

One of the most interesting and perhaps important findings was how these high-growth, successful American companies are doing abroad. They are doing extremely well abroad. In the last 5 years their revenues derived internationally grew 230 percent, for the next 5 years they project growth of the same range, so you are talking about an annual sales increase of about 26 or 27 percent.

We asked them how they accounted for this success, and they attribute it to their managerial skill, the way they ran their companies, their stress—and they repeatedly said this—on product quality and marketing quality, aggressiveness, agility, patience, the willingness to take risks and losses.

They often talked in terms of military engagements, phrases like taking a beach head, suffering early losses, bringing more troops in, very combative, very aggressive.

If you would like to look on page 10 in our report, the CEOs contrasted themselves, their companies, as to how well they do against their foreign competitors in basic types of business activity, and you will notice that on all of the quality-related aspects as to product quality or marketing quality, they rate themselves higher.

Interestingly on all of the cost-related aspects vis-a-vis foreign competition, they rate themselves lower.

That gets to their findings as to the problems they are having, even given this fairly extraordinary rate of success. In rank order, the problems they are having, the first problem is cost, because they are not the low-cost producer. They therefore are very sensitive to costs.

Interestingly, and if you will look on page 17, they rank the types of costs they have. These are not low-wage companies. These are high-wage companies, but nevertheless they rank as last in their cost pyramid, labor costs and resource costs, and they rank market access, cost of capital and taxes much higher. These are different kinds of companies than 1960s or 1970s companies. These are value-added, quality-added, technology-intensive companies.

The second problem that they faced was overcoming the cultural bias, particularly most pronounced in the Common Market and Japan, that locally made products are of a higher quality than American-made products, and they had to overcome in a number of ways either through marketing or changing the quality of their product in the factory to convince the foreign consumer that their products were of higher quality.

Third, the last problem they faced, were Government-imposed barriers, and those are listed on page 18, Japan, Common Market, Brazil, and South Korea.

Finally, what do these successful companies want this Government to do? Their first request is that this Government avoid protectionism at all costs. These companies, because they are growing so fast abroad, are penetrating international markets so rapidly, and justly so, that if any retaliatory cycle starts up, it will be their products and their success that will be taken hostage.

Second, and you have heard this from all the previous panels, they would like the size of the Government's domestic deficit reduced. These companies are capital hungry. They are in the capital markets regularly, and they would like the deficit reduced, which they see as eating the savings pool in this country.

Much further down the list, they would like the Government to do three things. They would like the Export Licensing Control System to be streamlined. Fifty-two percent of the companies reporting in the survey said they had serious problems there.

Fourth, they would like this Government to recognize that the biggest barrier abroad is the cultural barrier problem of the qual-

ity perception of American goods and services, and they would ask you to recognize that this problem has been a long time in the making, and goes to the way we educate our people, labor-management relations, the certain pressures of the financial markets, a whole host of things that will take government and the private sector a long time to turn around.

Lastly, they would like you to move on unfair Government practices in a very cautious but aggressive way, to quote one of the gentlemen who just appeared, and to recognize that the Government-imposed barrier part of the problem is only a small part of the problem, and they fear that in any zeal to overcome problem No. 5, you would risk running protectionist cycle which they regard as problem number one.

Thank you.

Mr. JENKINS. Thank you, Mr. Lilley.

[The statement of Mr. Lilley follows:]

STATEMENT OF WILLIAM LILLEY III
PRESIDENT, AMERICAN BUSINESS CONFERENCE
BEFORE THE SUBCOMMITTEE ON TRADE
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

March 3, 1987

I am pleased to testify today on behalf of the members of the American Business Conference (ABC) on the issue of trade legislation. Our members and I are mindful, Mr. Chairman, of the large number of groups seeking to appear before the Subcommittee on this matter. We are accordingly grateful that you and your colleagues were willing to accommodate us.

The American Business Conference is a coalition of one hundred chief executives of midsize, high growth companies. To qualify for membership, ABC companies must demonstrate an annual revenue growth at least three times the growth of the economy plus inflation. In fact, the average ABC company grows at a far higher rate -- about 35 percent per year. The average annual revenues of ABC companies is \$370 million. ABC companies are creating new jobs at a median rate of about 13.5 percent annually.

ABC companies are distributed across the manufacturing and service sectors in proportions representative of the economy as a whole. As high growth firms, they tend to be capital intensive, knowledge intensive, and greatly dependent upon technological and marketing leadership. ABC companies are the sort of value-added manufacturers and value-added service firms upon which many have placed their hopes for America's future.

Last autumn, in anticipation of the great debates on trade and competitiveness that lay ahead, Arthur Levitt, the chairman of the American Business Conference, and I decided to survey ABC executives regarding their companies' international business. We already knew that about three-quarters of ABC firms derived significant revenues from abroad. Our thought was that a systematic examination of how international revenues are earned by some of America's most successful entrepreneurial companies might be of general interest and, we hope, of use to policymakers.

- * ABC companies are increasingly dependent upon foreign revenues as a fuel for their overall expansion. In 1982, 13.6 percent of the total revenues of ABC firms were derived internationally. In 1985, that figure had risen to 22.1 percent.
- * ABC companies compete on quality, value, innovation, and service. They almost never compete on price alone.
- * ABC executives reject the supposed primacy of labor costs in explaining this country's lack of competitiveness. They stress instead the importance of controlling total costs -- especially for market access, capital, and taxes.
- * ABC executives oppose protectionist legislation.
- * ABC executives believe that successful international competition is fundamentally a question of managerial will and skill.

As encouraging as these findings are, they should not be taken as evidence that ABC executives are sanguine about America's future in the international marketplace. The reverse seems true. Our survey revealed considerable distress among our membership regarding the related issues of the domestic deficit, an unstable monetary

climate, increasing foreign indebtedness, and a relatively high cost of capital.

You have heard these concerns before. Every member of this Congress has voiced them. In Washington, they have taken on an almost totemic status.

Nonetheless, these issues, familiar as they are formidable, remain of first concern to the executives I represent. Fairly or not, ABC members believe that the government is in a better position to do more for business's international prospects by a renewed battle against our fiscal and monetary problems than it is by passing legislation designed to police the trade policies of other nations.

To be sure, trade barriers do exist. Our report lists those impediments to trade most commonly encountered by ABC executives. One of the most frequently mentioned is immediately amenable to governmental remedy: our own export licensing system.

Few issues have generated such needless controversy. No ABC member affected by export controls wants to do away with them. ABC executives do believe, however, that the process for obtaining an export license is unnecessarily cumbersome and marked by inter-departmental squabbling. The delay can cost sales since other nations administer their licensing programs more efficiently. Lost sales mean less money for research and development. Less R&D means loss of technological leadership. An unnecessarily restrictive or capricious export licensing system, in other words, is a kind of "reverse protectionism" that is no more to our benefit than its more traditional counterparts.

ABC executives also face foreign trade barriers. Given the remarkable record of international success enjoyed by ABC companies, it seems fair to assume that the foreign trade barriers identified in our report are real and not merely rationalizations for poor marketing or substandard products and services that no one in any nation would choose to purchase no matter how level the playing field.

ABC executives cited Japan, the European Economic Community, Brazil, and Korea as the nations with the most difficult barriers to American trade.

- * Cultural Preferences were the most common foreign barrier to trade identified by ABC executives. Included in this category were the reluctance of talented foreign technicians to join American-owned subsidiaries, the tendency of governments to rely upon local suppliers, and the unwillingness of consumers -- both individuals and firms -- to buy American products and services. Japan and the member countries of the EEC were the nations most often associated with the cultural preferences barrier. ABC executives specifically singled out the EEC for domestic content requirements.
- * Tariffs constituted the second most commonly cited trade barrier. Brazil is particularly notorious for its prohibitively high tariffs. ABC executives also fault Korea and Japan on this score.
- * Discriminatory Regulatory Standards, a problem associated almost exclusively with Japan, was the third most commonly cited barrier. This category encompasses a variety of unpredictable, prejudicial, or unevenly applied regulatory policies.

Additional foreign trade barriers identified by ABC executives include: data flow restrictions, discriminatory tax policies, prohibitions against the repatriation of capital, and technology transfer requirements.

The question is, of course, how many of these foreign trade barriers can be reduced by legislative or administrative action? That remains one of the Subcommittee's most difficult determinations.

With omnibus trade bills introduced in the House and the Senate and with the Reagan Administration prepared to offer its own bill, it seems clear that trade legislation of some sort will pass this year. ABC executives firmly support the streamlining of current trade laws and the initiation of international negotiations aimed at lowering trade barriers. ABC executives are, however, suspicious of efforts designed

to impose mandatory retaliation against countries registering "excessive" trade surpluses with the United States. While viscerally satisfying, the impulse for across-the-board retaliation can hurt companies like those of the ABC in at least two ways:

- * U.S. imposed restrictions on imports would directly harm the business of member companies who import the affected product either for resale, or as a component in a final product sold in the U.S. or abroad.
- * If a trade war results from U.S. retaliation, the foreign country may erect new barriers against the sale of member companies' products or services in that country. Because ABC companies have been very successful in doing business in foreign countries, they are particularly vulnerable to such retaliation.

Trade retaliation is risky policy, a job for a scalpel, not a bludgeon. It is best done in specific, limited cases and only after full evaluation of any ensuing costs to American industry.

Mr. Chairman, the challenge facing American business today is not so much unfair competition as it is competition pure and simple. Any trade legislation worthy of this Subcommittee's attention should be designed to nurture success rather than simply to protect failure. It cannot be allowed to camouflage the central macroeconomic problems that must, sooner or later, be addressed if we are to earn -- rather than borrow -- a standard of living commensurate with our citizens' rightful expectations.

Mr. JENKINS. Mr. Henriques.

STATEMENT OF VICO E. HENRIQUES, PRESIDENT, COMPUTER & BUSINESS EQUIPMENT MANUFACTURERS ASSOCIATION

Mr. HENRIQUES. Thank you, Mr. Chairman.

I am here today to address two topics vital to the future of the computer and business equipment industry. They are the ways Congress can help improve the competitiveness of the industry and ways the Congress can help to increase access to foreign markets for U.S. companies in the industry.

Let me set the stage by telling you something about our industry. It is already highly competitive and it depends for that on the worldwide economy. If the U.S. Government disrupts that marketplace, it could actually damage our companies and the future of high technology in America.

Within the United States we see most of our customers as replacing and gradually expanding systems that are already in place, but opportunities exist to introduce computers for the first time within user industries in other countries. Thus we must support policies that build as strong a worldwide economy as possible, for only then will our industry be able to realize its full potential as a supplier to the world.

The international focus of our industry is difficult to grasp for those who look from a U.S. perspective only, since they are likely to be alarmed by changes in trade patterns that have reduced the industry's U.S. trade surplus in recent years. Failing to understand the need for international expansion they are likely to see a lower trade surplus as a decline in the industry rather than as a necessary adjustment that reflects an increasingly international focus.

This global orientation and success does not, however, mean we do not care about unfair trading practices. On the contrary, it means we seek a mutually open competition-based trading system worldwide.

The techniques our companies have used to achieve their current competitiveness include: reducing product prices while increasing product capabilities through economies of scale in manufacturing, worldwide sourcing of lower cost components, worldwide marketing, adopting technological advances, quality control, and productivity improvements; building solid relationships with customers by offering products and services that are adaptable to the changing needs of the customer, by training the customer and by making reliable maintenance available; developing innovative and aggressive sales techniques for products so new that they have no previously developed set of customers; forming a variety of joint business arrangements with other domestic and international companies; tailoring products to the needs of specific markets; keeping overhead costs in line with revenues that are constantly under pressure from competitors, and developing new products processes and services through a large percentage of revenue invested in research and development; investing large amounts of money in employee on-the-job training, and establishing companies and plants in locations where they can take advantage of high levels of education, people

trained in the industry, and strong universities from which new ideas flow.

Our industry's growth depends on the world's economy. It is in this context that we measure the numerous trade and competitive-related proposals now pending before the Congress.

I would like to focus on certain trade measures and recommendations that I believe are of particular concern to members of this committee.

The first recommendation is to maintain an open trading system. Raising trade barriers can have only negative consequences, forcing companies to manufacture products intended for the international marketplace outside the United States, and raising prices to U.S. domestic customers so that they are less able to purchase productivity-enhancing equipment than their international competitors.

The United States should also vigorously support the negotiations within the GATT aimed at opening access to foreign markets. Intellectual property rights, telecommunications, investments and services are areas of current concern in the GATT. The GATT alone cannot remedy our intellectual property concerns.

In addition, the United States should amend section 337 to remove the economic injury test. We should ensure that the protection of intellectual property rights is a principal objective in all relevant negotiations, and we should take actions to adhere to the Berne Convention.

Our second recommendation is to adopt market-opening legislation for telecommunications products. We support title II of H.R. 3, the international trade in telecommunications products and services. This title is crafted to provide the kind of leverage necessary to negotiate market access while preserving Presidential discretion to carry out such negotiations.

Recommendation 3: Adopt a sensible approach to industries and workers disrupted by global economic changes. Changes in global markets impose severe problems on certain companies and their workers. As a humane society, we must do our best to help those caught in global economic forces beyond their control.

In the past we have sometimes treated noncompetitive companies as if they were permanent invalids. We must stop this behavior. We must acknowledge that economic changes will occur, and we must help industries and people adjust to reality.

We support proposals to amend section 201 of the Trade Act to require the International Trade Commission to evaluate the long-term viability of an industry as one of the factors considered in determining whether or not to impose import constraints to aid that industry. If there is no hope that an industry will recover, there is no use in bolstering it temporarily with measures that may be damaging other sectors of the economy.

Recommendation 4 would be to reduce export constraints on companies in our industry. I recognize that the export controls system will be addressed by another committee, but we expect that the omnibus trade bill that will emerge will contain amendments to the Export Administration Act. We recommend that the United States therefore modify the export control system to reduce its

highly negative impact on our industry and on the national economy.

Establish an export license "common market" within which export licenses would not be required; eliminate U.S. controls on exports and reexports when similar products are available from other sources; eliminate U.S. controls on the reexport of U.S.-origin parts incorporated into foreign products below a specified minimum level; restructure the distribution license mechanism to include expansion of eligible products, and in this regard, we are pleased by the recent activities and initiatives announced by Secretary Baldrige.

Our recommendation 5 is to increase supports for basic research and development. To help industry, Congress should continue support for R&D through appropriate tax provisions.

The biggest threat to our industry is protectionist legislation. The second is reducing the President's options to deal with problems in the trade area. Mandatory retaliation is not the solution. We must ensure that the President retains discretion in imposing trade sanctions against other nations.

We see a third threat in proposed "scofflaw provisions" of H.R. 3. The Customs Service already possess extraordinary penalty powers and we think the penalties provided in the draft bill are totally out of proportion to the potential violations.

Equally serious is a proposal to amend our antidumping law to create a private cause of action and establish multiple offender penalties for dumping violations. Such legislation would alter unilaterally U.S. adherence to GATT norms and procedures for redressing international dumping violations.

We particularly oppose any radical departures from GATT that chill international trade and undermine the ability of our companies to be competitive worldwide.

There is no issue currently before Congress that has the complexity or the importance of trade legislation. Any legislation passed must be carefully crafted to enhance U.S. competitiveness overseas and open markets without threatening the stability of the world economic system or disrupting our companies' international lines of supply and sale.

Because our companies are successful on the international marketplace, our industry is in a key position to help Congress achieve its goal of enhancing U.S. competitiveness. We stand ready to work with you to achieve that goal.

Chairman GIBBONS. Thank you, Mr. Henriques.

[The statement of Mr. Henriques follows:]

Statement of Vico E. Henriques, Computer & Business
Equipment Manufacturers Association

My name is Vico Henriques. I am president of the Computer and Business Equipment Manufacturers Association (CBEMA). And I am here today to address two topics vital to the future of our industry. I want to support ways Congress can help improve the competitiveness of our industry. And I want to support moves for increasing access of U.S. companies in our industry to foreign markets.

But before I launch into specific recommendations, let me set the stage by telling you something about our industry. It is already highly competitive. And it depends for that competitiveness on the worldwide economy.

I can't overemphasize that statement. Our industry competes on the international marketplace, and it depends on that marketplace. If the U.S. Government disrupts that marketplace, there is a very good chance of hurting our industry, not only internationally but also domestically. The international focus of our industry is crucial to understanding the effects trade policy and legislation can have. And by understanding this focus, I think you'll also come to a better understanding of why so much currently-proposed legislation could actually damage our companies and the future of high technology in America.

The Dependence of Industry Growth on the Worldwide Economy

Let's look first at how and why the computer and business equipment industry depends on the worldwide marketplace.

Because this industry is both successful and young, its past-ten-year compound growth rate for combined domestic and international revenue is a relatively high 14%. Some analysts see the industry as maturing and therefore unlikely to experience again the dramatic growth rates of the recent past. Nonetheless, predictions for the growth of the industry over the next ten years are 9%--highly positive in light of expected global economic conditions.

Those conditions include strong challenges to U.S. leadership from companies in Japan, the European Community, Korea and several other Newly Industrializing Countries. Such companies have seen the growth opportunities in our industry and have marshalled unique resources to help them compete. Established companies are challenged by the competitiveness of these emerging companies. While U.S. firms are losing some market share to these companies, the emerging companies have helped expand the market so that all have enjoyed growth even while market percentages are shifting.

The predicted 9% growth rate will be realized only if our domestic and international customers remain healthy and able to buy our products. Thus our industry has a direct interest in the health both of the U.S. and of the worldwide economy.

Within the U.S., we see most of our customers as replacing and gradually expanding systems that are already in place; while there remain a few pockets of opportunity to computerize new segments of the economy, we will not see again the computer revolution of the '60s and '70s. However, opportunities to introduce computers for the first time within user industries in other countries are vast. These markets offer U.S. computer and business equipment companies their best opportunities for significant expansion.

It is vital to our industry, therefore, that U.S. economic policies not damage the economies of the rest of the world. We could not support "beggar-thy-neighbor" trade policies even if we thought they would improve our domestic market, which we do not. We cannot support policies that exploit and damage the economies of other countries. We must support policies that build as strong a worldwide economy as possible, for only then will our industry be able to realize its full potential as a supplier to the world.

This international focus of our industry is difficult to grasp for those policy-makers who look at this industry from a U.S. perspective only. Such policy-makers are likely to be alarmed by changes in trade patterns that have reduced the industry's U.S. trade surplus in recent years. Failing to understand the need for international expansion to achieve revenue increases from such operations as the provision of services and licensing arrangements, they are likely to see a lower trade surplus as a decline in the industry rather than as, in part, a product of the high dollar and, in part, a necessary adjustment that reflects an increasingly international focus.

Without an international focus, our industry is bound to fall behind, as have many U.S. companies that have not kept pace with international companies in productivity, quality, efficiency, or technology advances. And by failing to meet these challenges, these lagging companies have lost ground in both the domestic marketplace as well as the international. Our companies, in contrast, are competitive--growing in revenue and in the development of new products--because of their international focus. And price competitiveness and technological achievements are vital to international success. This global orientation and success does not, however, mean we do not care about unfair trading practices. On the contrary, it means we seek a mutually open competition-based trading system worldwide.

It is not only the companies in our industry based in the U.S. that have this international focus. Japanese-based companies are beginning to follow U.S. patterns of foreign investment, global sourcing, worldwide research and licensing. They recognize that an export-only approach to high-tech sales is far too limited an approach to building a company. Like U.S. companies, Japanese companies are now building plants and hiring employees abroad. Fully a third of Canon's 34,000 employees, for example, are non-Japanese citizens employed outside Japan. By 1985, the Japanese had licensed so much technology abroad that they were receiving as much in licensing and royalty payments as they were paying for their own licenses of non-Japanese technology.

As U.S. companies have long maintained, foreign investment helps both the investor and the country in which the investment is being made. New jobs in the target country and new tax sources are just part of the equation. Japan's Yuasa Battery Company, for example, won the British "Queen's Award for Export Achievement" when 60% of the products from its U.K. plant were shipped out of Britain and into other European countries.

No country, no industry can succeed if it ignores the interdependence of today's world economies. Our industry has adjusted well to this reality. It must not be handicapped by policies designed to help other industries live in a past that no longer exists or to help preserve jobs that are no longer viable. Policies designed for a non-existent past can lead only to economic disruption and severe damage to the democratic way of life that our economy underpins.

Factors Producing a Competitive Industry

Now that I have described how and why our companies are dependent on the international marketplace, let's look at the ways they have used to succeed in that arena.

Competing in the global marketplace is a very different proposition from competing strictly domestically. Our industry has made the adjustment in thinking and the adjustment in action. But I must admit that some of the necessary actions threaten the thinking of those who have looked at economies only from a national perspective.

It is crucial that we not give in to parochial thinking. Today's interdependence of world economies forces us to reexamine assumptions and to act in ways that will lead to long-term national and worldwide economic health rather than in ways that make sense only from a short-term perspective.

The techniques our companies have used to achieve their current competitiveness include:

- o Constantly reducing product prices while dramatically increasing their capabilities through: economies of scale in manufacturing, worldwide sourcing of lower-cost components, worldwide marketing, adopting technological advances, quality control, and productivity improvements.
- o Building solid relationships with customers by offering equipment that can be updated as the customer organization changes, offering customer training, and maintaining highly-skilled and readily-available product service teams.
- o Developing innovative and aggressive sales techniques for products so new that they have no previously-developed set of customers.
- o Forming a variety of joint business arrangements with other domestic and international companies. Relationships as diverse as joint product development, joint research, licensing, team marketing, joint development of manufacturing processes, joint manufacturing and use of multiple distribution channels--all contribute to industry competitiveness without reducing industry competition.
- o Tailoring products to the needs of specific international markets. Our products are, for the most part, used in countries around the world, each with its own set of customs, languages, and procedures. Therefore, products--both hardware and software--must be altered or even redesigned for effective use. Our industry has found it impractical to attempt to accommodate these differences by centralized development and manufacturing facilities that are thousands of miles or even continents away from customers and their needs. Thus companies in our industry have established worldwide networks to accommodate customer needs--sometimes through subsidiaries of the parent company, at other times through partnerships with local companies.

To further enhance the strength of companies' international operations, many of the managers from foreign subsidiaries are brought back to the U.S. headquarters on either a temporary or permanent assignment. Such managers are able to bridge the gap between U.S. products and the international cultures for which they are intended, suggesting modifications for the international market, bringing successful innovations from other countries to U.S. developers and in general helping the company orient itself to serve the needs of customers in many countries.

- o Keeping overhead costs in line with revenues that are constantly under pressure from competitors. This means especially intelligent use of human resources; in the U.S., for instance, CBEMA companies' revenues amounted to almost 5% of the gross national product while employment was only 1%. These employees often enjoy wages above the national average, excellent working conditions and benefits. Equally important, they have the opportunity to learn and exercise skills that make them mobile within their companies and readily employable elsewhere in the economy.
- o Constantly developing new products, processes and services. This demands that a large percentage of revenue be invested in research and development; in 1985, CBEMA companies averaged about 5.8% of revenue invested in R&D.
- o Investing large amounts of money in employee on-the-job training. Because of the speed with which technology changes, employees of CBEMA companies do not expect to remain in the same jobs, or for their jobs to remain the same, for long periods of time. Instead, manufacturing, marketing and development employees are constantly absorbing new knowledge that allows them to move on to the next generation of products as technology advances.
- o Establishing companies and plants in locations where they can take advantage of high levels of education, people trained in the industry, and strong universities from which new ideas flow.

Many industries, we are convinced, could benefit from this long-range thinking. It is difficult to make the adjustment. But it can and must be done if U.S. companies are to succeed in a world that is growing ever smaller as a result of the interconnection of businesses in every country.

Our industry's growth, then, depends on the world economy and we have built a competitive industry that caters to the realities of the world marketplace. It is in this context that we measure the numerous trade and competitiveness-related proposals now pending before Congress. We have written a paper on the subject. For now, however, I would like to focus on certain trade measures that I believe are of particular concern to members of this Committee.

Recommendation I.: Maintain an Open Trading System.

CBEMA member companies' competitiveness can only be maintained through policies that hold level or reduce tariffs and vigorously resist protectionist legislation such as import surcharges, quotas or retaliatory customs duties (particularly of a cross-sectoral nature). Our industry imports and exports vast quantities of products and components. Often products cross borders dozens of times during the manufacture and assembly process. Raising trade barriers that impede this flow could have only negative consequences:

- Forcing companies to manufacture products intended for the international marketplace outside the U.S.
- Raising prices to U.S. domestic customers so that they are less able to purchase productivity-enhancing equipment than their international competitors.
- Making U.S.-manufactured exports less competitive when they contain significant percentages of imported parts. —

Even seemingly minor modifications to current trade law could have very negative long-term consequences. The customs user fee issue is a good example. First, the concept of charging companies a fee in order to impose taxes on them is ludicrous. Second, the proposal to expand coverage of the fee to products containing U.S. parts--products which currently enjoy an exemption--is potentially damaging to U.S. sales to companies manufacturing products outside the U.S. for export to the U.S. The current system, signed into law in 1986, is objectionable. But it has at least the advantage of encouraging companies to include some U.S. content in products they are exporting to the U.S.--which means American jobs.

The U.S. should also vigorously support the negotiations within the General Agreement on Tariffs and Trade (GATT) aimed at opening access to foreign markets. Intellectual property rights, telecommunications, investments and services are areas of current concern in the GATT that are of crucial importance to CBEMA members.

GATT alone cannot remedy our intellectual property concerns. In addition, the U.S. should:

- Amend Section 337 to remove the economic injury test.
- Ensure that the protection of intellectual property rights is a principal objective in all relevant negotiations.
- Adhere to the Berne Convention.

Title I of H.R. 3 (Subtitle B of Chapter 3) includes the first two elements; we vigorously support their adoption.

Recommendation II.: Adopt Market-Opening Legislation for Telecommunications Products

CBEMA vigorously supports Title II of H.R. 3 (International Trade in Telecommunications Products and Services). This title is crafted to provide the kind of leverage necessary to negotiate market access while preserving sufficient Presidential discretion to carry out such negotiations.

Recommendation III.: Adopt a Sensible Approach to Industries and Workers Disrupted by Global Economic Changes

Changes in global markets sometimes impose severe problems on certain companies and their workers. As a humane society, we must do our best to help those caught in global economic forces beyond their control.

In the past, however, we have sometimes treated non-competitive companies as if they were permanent invalids. We have surrounded them with protective tariffs and have given benefits to their workers that frankly encouraged them to remain unemployed.

We must stop this behavior. We must acknowledge that economic changes will occur, and we must help industries and people adjust to reality. Thus we support proposals to amend Section 201 of the Trade Act to require the International Trade Commission to evaluate the long-term viability of an industry as one of the factors considered in determining whether or not to impose import constraints to aid that industry. If there is no hope that an industry will recover, there is no use in bolstering it temporarily with measures that may be damaging other sectors of the economy. It must be remembered that providing relief in Section 201 cases by raising tariffs is not without cost. Under our international trade agreements, we are obliged to compensate our trading partners in other areas.

Similarly, we must deal with workers in the affected industry humanely, but realistically. If there is no possibility that they will be able to return to employment in the faltering industry, they should be encouraged to retrain, relocate and find employment in a field with a future.

Recommendation IV.: Reduce Export Constraints on Companies in Our Industry

I realize that reforming the export controls system will be addressed by another Committee. However, we expect that the omnibus trade bill that will emerge from Congress will include amendments to the Export Administration Act. We are actively engaged in the discussion of these proposed amendments. For the record, I would like to include a brief summary of our positions.

We recommend that the U.S.:

- o Modify the export control system to reduce its highly negative impact on our industry and on the national economy.
- o Establish an export license "common market" within which export licenses would not be required.
- o Eliminate U.S. controls on exports and reexports to non-controlled countries when similar products are already available in those countries from other sources.
- o Eliminate U.S. controls on the reexport of U.S.-origin parts incorporated into foreign products below a specified minimum level.
- o Restructure the Distribution License mechanism to include expansion of eligible products and the addition of appropriate destinations such as the Peoples Republic of China.

We are very pleased by the recent initiatives announced by Secretary of Commerce Malcolm Baldrige on this subject, and will continue to work with him, with the entire Administration and with Members of Congress on this pressing and vital issue.

But trade-specific legislation is only part of the answer. Congress should also undertake actions on the domestic front that will result in increased competitiveness on the international marketplace. These actions include:

Recommendation V.: Increase Support for Basic Research and Development

R&D support should have as its purpose broad scientific advancement that we can adapt to commercial use. The tax credit for incremental R&D, for instance, has proven its value in helping maintain and increase levels of R&D in our industry even during periods of economic contraction. CBEMA supports making this tax credit permanent. We also support government funding of basic research and efforts to stimulate R&D through the development of basic research centers for a variety of disciplines. In addition, we advocate a permanent elimination of Section 861 R&D allocations, which discourage domestic R&D.

Factors to Avoid in Trade Legislation

As I have emphasized, our industry is competing well on the international marketplace. But there are proposals--serious legislative proposals--that frankly could gum up the works for us.

Our biggest threat is protectionist legislation. Tariffs on components and parts shipped in from other countries, for instance, could turn the dream of high technology into a nightmare. Such tariffs would raise the prices of U.S. finished products sold in domestic markets without raising the prices of our competitors. We could survive in the domestic market if tariffs were imposed on finished products shipped in. But our international market would shrink dramatically. As I have said before, the U.S. does not have a monopoly on high technology. We must be price competitive. And if the products of companies in other countries are priced lower, as they would be if our companies had to pay tariffs on components, we would no longer be able to build equipment in the U.S. and export it. The 40% of U.S. production that we now export could shrink or all but disappear overnight.

A second threat is precipitous reaction to the unfair practices of our trading partners in the form of legislation requiring mandatory retaliation. We are very sensitive to the fact that some of our trading partners are not abiding by international rules. They are trying to export without allowing reasonable imports, thus excluding U.S. products from their domestic markets and putting U.S. workers out of jobs.

The problem is very serious. To solve it, we have lent our full support to the U.S. Trade Representative and the Departments of Commerce and State in their efforts to negotiate solutions to particular problems. Yes, those negotiations are slow, sometimes painfully slow. But reducing the President's options to deal with these problems is no solution. Mandatory retaliation in one product line may disrupt lines of sale and supply in other products. Our trading partners may counter-retaliate in ways that wreak havoc with the U.S. economy. Trade wars may erode strong alliances with our allies or worsen ties with neutral nations. For all these reasons, we must ensure that the President retains discretion in imposing trade sanctions against other nations.

We see a third threat in proposed "scofflaw provisions" of H.R. 3. The penalties that would be provided are totally out of proportion to the potential violations. Under the House provision, a company could be prohibited from importing for three years because, during a seven-year period, it violated customs laws on, for instance, three \$100 shipments. The Customs Service already possesses extraordinary penalty powers. And given that the imposition of such a penalty would result in extraordinary damage or even bankruptcy to many companies, this remedy should not be mandated.

Equally serious is a proposal to amend our antidumping law to create a private cause of action and establish multiple offender penalties for dumping violations. Such legislation would alter unilaterally United

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States adherence to GATT norms and procedures for redressing international dumping violations. We particularly oppose radical departures from GATT that chill international trade and undermine the ability of our companies to be competitive worldwide. These departures would impose high costs on competitive U.S. businesses, place heavy burdens on U.S. negotiators in international talks and pose significant risks to the survival of the multilateral trading system.

Conclusion

There is no issue currently before Congress that has the complexity or the importance of trade legislation. Any legislation passed must be carefully crafted to enhance U.S. competitiveness overseas and open markets without threatening the stability of the world economic system or disrupting our companies' international lines of supply and sale.

Because our companies are successful on the international marketplace, our industry is in a key position to helping Congress achieve its goal of enhancing U.S. competitiveness and the U.S. economy. I thank you very much for the opportunity to explore these issues with you and look forward to working with you closely on trade legislation in the 100th Congress.

Chairman GIBBONS. Mr. Black.

STATEMENT OF EDWARD J. BLACK, VICE PRESIDENT, INTERNATIONAL, AND GENERAL COUNSEL, COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION [CCIA]

Mr. BLACK. Mr. Chairman, I welcome the opportunity to appear before the committee on behalf of the computer and communications industry on this very important legislation.

A moment on CCIA. We represent approximately 60 manufacturers and providers of computer and communications-related products covering all the many areas in the large field of information processing and handling. Companies range from young entrepreneurial firms to many of the largest and best known companies in the computer and communications industry.

Participation is at the CEO level and this provides some guideline opportunities to understand what really are the core concerns and problems of member companies. The companies in CCIA represent, have industry-derived revenues of approximately \$50 billion and employ over 500,000 people in the United States.

The United States is still the world leader in most segments of our industry, but our position is being eroded by the serious problems we face in the global marketplace. At the same time the importance of the computer and communications industry to our national well being is growing, with the various related technology industries we account for an increasing proportion of the U.S. economy, and provide new equipment, processes and efficiencies, and solutions for many of the other sectors of our economy which are trying to remain globally competitive.

Some factors which distinguish and define our industry in the international arena is that most parts are equal to if not superior to our competitors in price and performance, although they are facing increasing competition which is narrowing the gap.

We are facing inevitable long-term increases in domestic and worldwide demand. Market entry and development of market share is especially important in our industry because of the strong customer tendency toward repeat business, ongoing service and upgraded products.

The pace of innovation, product development and turnover in product life cycle is much faster in our industry than that of most other industries. Many countries put a high priority on assisting and protecting their related domestic industries. In our area, we are viewed as critical for many other countries to develop the kind of industry base that we have.

We are major exporters, as I say, approximately 30 percent of revenues of members come from exports, but we are also major importers, and are internationally interdependent as an industry. A relatively high percentage of our industry's revenues come from exports, and we expect that this will in fact increase over time.

The situation we face as we try to compete in the international market is far less conducive to our industry's competitiveness than we would like but easy solutions do not exist for many of our problems.

In the short run, policies pursued by the administration, legislation from Congress, and even agreements with other nations are not likely to dramatically improve the situation. We are concerned that some legislation could have an extremely negative impact, however.

Nevertheless, there is room for improvement, and there are a number of things which legislation can accomplish and be very helpful on the international scene.

To jump to those, the first that I would like to mention is intellectual property. In this area, much of the improvement will need to be done in the negotiation framework, but we urge that Congress convey to our negotiators the importance of making sure that this is a top priority agenda item. We estimate that more than \$10 billion is estimated in lost U.S. sales, due to the theft of intellectual property.

Section 337 is proposed for change, and we support what the committee has indicated in the existing bill proposed in that area. There are a number of other changes, copyright reform and process patents, which should also be considered.

Authority for new round, we endorse the basic concept of minimizing the restraints imposed. In negotiations we think that there is room for a lot of progress. We urge our negotiators to be tough, and we frankly hope that a piece of legislation pending, not necessarily passed, will be a great incentive to kick the ground in the new round off aggressively.

I would like to briefly mention again, as my other two panelists have, export controls. This is an area which is unique in its impact, because it does not create a retaliatory threat, does not pit one industry against another, has no budget cost, and yet has a chance to make a significant impact on our trade competitiveness.

Thank you.

Chairman GIBBONS. Thank you, Mr. Black.

[The statement of Mr. Black follows:]

TESTIMONY OF

EDWARD J. BLACK

VICE PRESIDENT INTERNATIONAL AND GENERAL COUNSEL

COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION

Mr. Chairman, Members of the Committee, I am Edward J. Black, General Counsel and Vice President, International for the Computer & Communications Industry Association. I welcome the opportunity to appear before the Committee to express our views on the very important legislation you are considering.

CCIA is a national trade association comprised of over 60 manufacturers and providers of computer and communications-related products and services including large mainframes, mini and micro computers; semiconductors; peripheral equipment; software products; telecommunications equipment, systems, and services; word processing systems; and third party leasing and maintenance services. Company involvement in CCIA is at the chief executive officer level, and this provides valuable opportunities for peer level exchange of views on critical industry issues.

CCIA's member companies range in size from young, entrepreneurial firms to many of the largest and best known companies in both the computer and communications industries. Generally recognized as innovators in their respective areas of specialization, CCIA's members are credited with driving and shaping the industry via new technologies and products. Taken together, companies within CCIA's membership generate annual industry-derived revenues in excess of \$50 billion and employ over 500,000 people in the U.S. CCIA's member companies export approximately 30 percent of their U.S.-manufactured products, making them a significant positive contributor to our nation's balance of trade.

The United States is still the world leader in most segments of our industry, but our position is being eroded by the serious problems we face in the global marketplace. If these problems are not addressed the erosion of our markets will continue. At the same time, the importance of the computer and communications industry to our national economic well being is growing. With the various related technology industries we account for an increasing proportion of the U.S. economy, and provide new equipment, processes, efficiencies and solutions for many other segments of our economy which are trying to remain globally competitive. A strong and vital domestic industry able to compete effectively worldwide is essential to overall American prosperity and to our national security.

Because of our industry's importance and growth potential we face very stiff competition from companies in countries which have decided that they must develop their own domestic industry. However, the costs of innovation, research and

development, and retooling to produce newer generations of products are substantial and require most companies to develop an international market base in order to survive. We, therefore, face growing efforts to protect foreign markets.

Some factors which distinguish and define our industry and our approach to the international arena are that:

- o In most parts of our industry U.S. producers are equal to, if not superior to, most other competitors in price and performance, but are facing growing competition;
- o We are facing inevitable, long-term increases in domestic and world-wide demand;
- o Early market entry and development of market share is especially important in our industry because there is a strong customer tendency toward repeat business;
- o The pace of innovation, product development, and turnover in product life cycle is much faster in our industry than that of most other industries;
- o Many countries have put a high priority on assisting or protecting their related domestic industries;
- o A relatively high percentage of our industry's revenues, approximately 30 percent, come from exports, and these revenues are vital to our continued innovation and growth;
- o As well as being major exporters, we are also major importers, as the internationally interdependent nature of our industry evolves.

The situation we face as we try to compete in the international market is far less conducive to our industry's competitiveness than we would like, but easy solutions do not exist for many of our problems. In the short run, policies pursued by the Administration, legislation passed by the Congress, or agreements reached with other nations are not likely to improve the situation radically although extreme legislation could cause severe upheaval. However, we do believe there are some benefits which could accrue from a number of legislative changes and policy commitment.

As an industry, our primary goal in the international trade area is to be as unencumbered as possible by foreign or domestic regulations, barriers to trade, tariffs or other financial distortions, and to foster a world-market system which is as open and competitive as possible. The question

for us, and for the country, is how to become much more effective in preventing or curbing trade distorting practices without distorting our own open market.

Before commenting on specific changes to existing law which have been proposed, I want to list the broad problem areas which affect our ability to remain internationally competitive:

- o International economic and financial conditions such as the overvaluation of the dollar in previous years, the lack of economic growth by our trading partners, and the accumulated debt of the IDC countries;
- o Unrealistically broad and inefficiently administered U.S. export controls, which impose a serious burden on U.S. companies, but which could be greatly eased without impairing the law's central goals, or triggering many of the negative consequences of some other trade proposals.
- o Foreign barriers to trade including: obstacles to reasonable access to foreign markets; standards that are unreasonably restrictive; government procurement policies; demands that U.S. companies transfer or license technology; deficiencies in intellectual property protections; investment policies with conditions which are overly restrictive; tariffs which are still high in some major markets; and anticompetitive national policies designed to foster a secure home market and allowing a brutally competitive approach in the U.S. or third country markets.

It is also important to note some basic principles and premises which we have tried not to lose sight of even when buffeted by foreign protectionism including our recognition that:

- o An open, competitive, and unfettered domestic and international marketplace provides the optimum benefits to both producers and consumers -- few countries allow such openness without major exceptions;
- o The tremendous prosperity and expansion of the U.S. economy is largely derived from our relatively open and competitive market;
- o The computer, communications and other high-tech industries have especially benefited from the overall openness of our economy;

- o The preservation and improvement of open and free markets cannot be accomplished by laissez-faire political and diplomatic activity;
- o There are serious economic and political pressures which threaten to move us toward a highly regulated, if not protectionist, world; and
- o We need an active, well understood trade policy which is consistent, coordinated, and dedicated to seeking out and eliminating distortions to open trade. Pursuit of such a policy must remain high on the list of the Nation's priorities.

It is the last two of these points that we wish to explore more fully today. Those of us who deeply appreciate the widespread benefits of free and open trade have, understandably, tended to shy away from confrontational trade policies which carry the potential for retaliation. We do need to proceed with great care, but we have concluded that without a vigorous, consistent, and effective trade policy the pressures to move toward permanently regulated markets may be irresistible.

The United States has not consistently made trade matters one of the Nation's top national priorities for several decades. On occasion, trade concerns have reached a high level, but only temporarily. This has resulted partly from competing visions of what our policy should be, partly from focusing on narrow and short-run issues, and partly from the regular turnover of top trade officials in the Government. However, the result has been the growth of a world trading system which is full of trade distortions and barriers.

OPTIONS

In CCIA's view, there are some worthwhile improvements which can be undertaken legislatively to affect the substance of trade laws. However, many of the proposals before the Committee are understandably frustrated reactions to either inefficient, inconsistent, or half-hearted implementation of existing law and policies, reflecting years of vacillation on executive branch strategy and tactics.

We would like to see legislation which has as one of its primary goals encouraging, or more frankly pressuring, the Administration to aggressively pursue effective international trade policies and to obtain meaningful results. While we are uncomfortable with many formula proposals, careful crafting and the use of trigger mechanisms and sunset provisions could produce a bill which would effectively reinforce both positively and negatively particular trade actions and results. The difficulty is to match measures

geared to the problems of specific areas of trade with appropriate follow up actions. Overall trade deficit figures are too broad, but other more narrowly based figures might not be.

With regard to what actions would be upsetting enough to any Administration to continually encourage it to obtain results, the most likely candidate would appear to be temporary suspension of Presidential discretion. In the Section 301 area for example, a rapid loss of a certain amount of world marketshare in an industry might trigger a shift in decision making authority to the USTR from the President. There are some linkages between different provisions of the law which might also be of value in deterring the most blatant and persistent violators of U.S. trade law and reasonable principles of free and fair trade. For example, repeated and predatory violations of antidumping laws, intellectual property laws, or involvement in Section 301 cases could become grounds for assessing extra penalties against the repeat violators. If the Committee explores various mechanisms to temporarily sanction an Administration or develops similar sanctions on our trading partners, we wish to reiterate that our goal in supporting such measures would be to force a correction of behavior and that such levers should be designed to be temporary and perhaps experimental.

Following are some brief comments on some specific areas of proposed legislative change:

INTELLECTUAL PROPERTY

CCIA strongly supports efforts to make intellectual property issues high priority negotiating objectives in various bilateral and multilateral negotiations. Intellectual property protection is an area of special importance to our industry in which new technology and developments are vital to continued growth and expansion. The more than \$10 billion in estimated loss in U.S. sales due to the theft of intellectual property undermines our competitiveness. Section 337 of the Tariff and Trade Act of 1930 was intended to protect U.S. intellectual property from imports based on infringed patents. We believe that the current economic reward to those infringing U.S. intellectual property rights is so great that a more effective trade remedy must be created. CCIA also supports efforts to remove the burden on the injured party to prove both injury and industry efficiency. Other changes relating to copyright reform and process patents should also be considered.

AUTHORITY FOR A NEW TRADE ROUND

Both the current mechanisms and substantive rules for dealing with unfair trade practices are inadequate. New unfair practices seem continually to be devised to circumvent the current GATT system. Some of the problems we have encountered most frequently and which should be addressed in a new round of GATT negotiations are standards, foreign cartels, government policies to foster industry development, lack of coverage for services, performance requirements, government procurement, intellectual property protection, dispute resolution, targeting and dumping, and various restrictive regulatory schemes. The GATT should be a positive force for promoting open and competitive trade. We urge the Committee to ensure that GATT negotiations focus on its basic operations and on the above problem areas, but not to eliminate the discretion necessary for effective negotiations.

DUMPING

It is only recently that the dumping area of the trade law has become critical to our industry. We anticipate that current and future competitors may aggressively dump competing products in the U.S. with economic impunity, because of the solid economic base they have as large, diversified, and vertically integrated companies. Because of the need for constant infusions of capital for innovation, many companies would not be able to recover in the wake of a major dumping campaign, especially if it were to be combined with other targeting or trade restrictions.

Notwithstanding these concerns, however, we would urge great caution in evaluating proposals that we move unilaterally. While the U.S. should negotiate new GATT rules to effectively deter predatory dumping, we should act with caution on schemes which create civil rights of action or formulas which would subject importers and consumers to legal or economic penalties. When crafting any proposal to deal with targeted predatory dumping, provisions must be made for ensuring that there is a close and reasonable nexus between predatory intent and the factors purported to prove such intent.

EXPORT CONTROLS

Although it is not an area directly before the Committee, we want to briefly mention the subject of export controls. Any omnibus trade bill aimed at improving U.S. industry's international competitiveness should not ignore the problems we impose on ourselves with a "system" of export controls which is more restrictive and less efficient than necessary. This is the year in which a substantial reform of the export

control system should be undertaken. We control more of our products than does any other nation, we have more restrictive rules governing our export procedure and we have slow, redundant, and inefficient bureaucracies administering the law. In the previous Congress, the House attempted to significantly improve the Export Administration Act, but ultimately was unable to get key provision included in final legislation. We strongly urge you to support the inclusion of industry backed changes to the Export Administration Act in a final House trade bill this year. These reforms:

- o would translate directly into increased exports;
- o could be achieved without irritating sovereign nations;
- o would not risk triggering any retaliation; and
- o would not pit one industry against another.

There are many provisions in the various bills before the Committee which we have not commented upon here, but we will be pleased to work with the Committee on any provision before it.

Thank you again for the opportunity to present our views.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman.

I want to express appreciation to the witnesses for their testimony. All of you have touched upon what are sometimes defined as macroeconomic components of our inability to be competitive worldwide. One of these that was in the publication, "The Challenge of Global Competitiveness," and I believe that was your testimony, Mr. Black, was it not?

Mr. LILLEY. It is mine, Mr. Crane.

Mr. CRANE. One of the things that is mentioned in your survey about competitiveness is that we have under existing policy disincentives for savings and investment in this country. In fact we have had those disincentives for 50 years.

We, unlike Japan, tax interest, dividends, and capital gains. I was dismayed to read in the Wall Street Journal recently that the Japanese are reevaluating their own tax code, and are contemplating taxing the interest on small savers. It seems to me that that is a move in the direction of our policy, but it is a move that is injurious to the long-term interests of the Japanese. Rather we should be emulating the model that they have established. And when you talk to the Japanese about it, they are the first ones to tell you that they learned about putting incentives for saving and investment into their code from American economists after the war. Yet in this latest tax bill, we have taken capital gains rates, maximum rate from 20 to 28 percent, and based on the historic experience of the last 10 or 15 years, that clearly is a move contrary to generating venture capital and even revenue at the Treasury.

We have vastly restricted IRA eligibility, vastly restricted 401(k) eligibility. We have eliminated the dividend exclusion.

In short, in our comprehensive tax reform of 1986, it seems to me that we have aggravated all of the problems that currently are portions of the United States Code. Would you concur?

Mr. LILLEY. I think if you look on page 4 of the charts that we provided to the committee, they would tend to reinforce in every particular the statement that you just made. I mean the problem that this committee is addressing is, how do we grow our exports as an economy and as a society, which means, how do we grow the companies that are growing their exports.

The 100 companies that I represent are fast-growing companies that are extremely relevant to your points, because to grow as fast as they are, they are constantly into the capital markets. Therefore, their biggest cost problem, the most common reason for them to go abroad is cheaper costs of capital or lower taxes, not cheaper labor.

Mr. CRANE. I share your view on that point. I think it is borne out by all the statistics, even those provided by the Treasury Department in a report that they published in the middle of 1985. I put the question of capital gains to Secretary Baker, and to other witnesses that have appeared before this committee. If they want to address two problems simultaneously, namely accelerating investment and the availability of venture capital, simultaneously raising revenues to address the budget deficit, our history in lowering those capital gains rates from 49 to 40 to 28 to 20, contrary to the revenue losses initially anticipated by Treasury, got increased

revenue. But more importantly, there was a geometric explosion of venture capital made available every time we did that. When the question was put to them, that by raising these rates they are going to pick up \$21.8 billion, they acknowledged that, well, yes, that is because of the sales of capital assets between October 1 of last year and December 31. About \$20 billion of their \$21.8 billion projected revenue over 5 years they have already realized, and that fell in fiscal year 1987.

While they conceded the point that this is going to reduce revenue on the one hand and be injurious to the economy at least implicitly, they still back off a proposal to make an alteration on the grounds that that might start an unraveling of tax reform.

Well, if it is bad policy and we know it is bad policy and you can achieve beneficial results consistent with the goal of providing for growth and revenue neutrality, I don't view any part of that tax bill as sacrosanct. Frankly I think we should open it up in those targeted areas every time we can identify one of those problems. Would you and the other panelists concur?

Mr. LILLEY. I would answer your point that often we frame our answers to perceived problems around the way that large companies and large unions and large work forces operate. That has been a tradition since perhaps the New Deal, and yet now in the economy you see the growth and the drive coming from your midsize and small companies. They are the people that are increasing their sales, adding jobs, and you see the large companies who usually internally finance their growth and therefore the question of the capital markets is not as relevant to them.

You see that growth now coming from companies like these American Business Conference companies, so perhaps the extra pressure in your point is that when you look at where growth is coming, it is these middle-size companies and small companies and questions like the capital markets are extremely important to them.

Mr. CRANE. Would you gentlemen disagree with that?

Mr. BLACK. No, I think that is correct. In my industry there is a tremendous need for capital for research and innovation as well, and it has clearly compounded the international sales of my member companies is roughly approximate to what they spend on R&D. That is one reason why exports and their ability to stay in the market at all and to stay internationally competitive is critical, and there is a strong linkage. There are other factors which affect cost of capital, and some of the provisions are certainly very important as well, and an ongoing problem.

My members range from small to large. As Bill has indicated, some of the most aggressive are some of the smaller and medium size. They are also the ones most able to be hampered without the deep pocket by some radical changes of the underpinning laws and ground work of export controls, of a variety of things that require a Washington presence and counsel to deal with and lobby with, and are extremely frustrated by a shifting curve all the time.

Mr. CRANE. If you can give me a brief answer, my time has expired.

Mr. HENRIQUES. I would agree on the capital gains proposals that you have made, but I have to say that for our industry we are very

concerned about an unraveling of the tax act from last year, in its general structure.

Mr. CRANE. Maybe we could achieve revenue neutrality through any revenues generated by taking those capital gains taxes back down again. We will apply them to expanded R&D credits and achieve a very favorable climate.

Thank you.

Mr. LEVIN. Thank you, and thank you for your interesting testimony.

Mr. Lilley, you mentioned the increase in total revenues of ABC firms, that that figure rose to 22.1 percent in 1985. I looked through and I did not see it, maybe I missed it. Is there any breakdown as to the sources of those international revenues by country?

Mr. LILLEY. No, Congressman. We do not break that down in the report. I can give you now, if you would like, a general guesstimate of that.

Of our companies competing abroad, and that is three-quarters of our companies, 47 of those have some type or partially to fully integrated facility abroad. As I said in response in the earlier testimony, that decision has usually not been made in a wage-sensitive fashion but in a cost of capital or taxes.

Mr. LEVIN. In terms of the country, the location, do you have any data which show in what foreign countries the operations occur? Could you give us any kind of geographical breakout of the overseas business of these firms?

I don't want specific information that is in any way proprietary, but I would guess that you might have that kind of geographical—

Mr. LILLEY. I could provide you a geographical breakdown. The country that seems to be the most favored country for these growth companies now to locate some fourth of facilities in is Ireland, which apparently has a very favorable tax and capital structure. I am not familiar with the details of it.

Mr. LEVIN. Do you know about the standard barriers in Ireland to foreign investment?

Mr. LILLEY. No, I do not, sir. I could provide that for you.

Mr. LEVIN. It would be interesting for you to give us that information, and then what we can do here is to take the country breakout, look at the alternatives and look at the barriers, and see if there is any kind of a relationship.

Mr. LILLEY. If I could add to your question, when we began to explore the notion of how much of these sales were derived from exports or what percentage from just selling goods that were made abroad, we found out from our members that to operate successfully as an exporter, they thought required them to have fully integrated presence abroad. Many of these companies are at the high edge of the technology part of their businesses, not necessarily computer but other areas, and they said for them to be able to capture the innovation in what was a worldwide market so that they could bring it back home to defend their biggest market, the U.S. market, they needed to have facilities in other countries, so that they could participate in those innovations, and bring them back.

Other people, we have a company, a leading spirits distiller, an exporter in this country, for them to be able to export successfully

they also in those countries had to go into those countries and make arrangements to import back the products that were made in those countries.

Mr. LEVIN. I think that will make the information you send even more interesting.

I just had 1 year of opportunity to work in relationship to investments and joint ventures, and countries dramatically varied in the barriers they create. So let's look at the figures, and then look at barriers and see how much relationship there is. I think if you do that you may become a little more concerned about barriers overseas to investments and the like by companies that belong to ABC, but let's look at the figures.

On page 21 you talk about the special case of Japan, and I just wanted to give you an impression. I don't think I personally would disagree with anything that you say there. You kind of beg the key question, though, because at the end on page 23, you say,

Nevertheless, ABC executives would argue that Government can best help American business penetrate the Japanese market by reducing the Federal debt, establishing a sound monetary and tax policy, and encouraging intelligent regulatory and educational reforms. Protectionism, on the other hand, is of no help at all. In the end, Government must place the central responsibility for American competitiveness in Japan and elsewhere upon the shoulders of American business where, in our society, it belongs.

The question is, What goes on between now and in the end? And you are going to I guess submit some further reports as mentioned on page 25. I would hope they would address the question of what is done in the interim between now and the end, whenever the end occurs.

Mr. LILLEY. Mr. Levin, in partial answer to that, one of the points that all of these executives made, and it was just the chief executive officer who filled this out and then talked to us, was the question of the quality of the American goods and the quality of the marketing of the American goods, and their assessment is that that is, particularly in the Japanese market, the biggest perceived barrier to successful penetration by American firms of that market. And many of them—and if you will look at the list of companies, these are the best in our economy—many of these companies had to upgrade the quality of their products, which were already blue chip seller in this market, in order to penetrate the Japanese market.

Mr. LEVIN. But let's look at the success. Let's look at the figures, because you know it may be that the higher the quality of good, the greater can be the resistance to it by domestic producers in that country.

Let's look and see the figures, the amount of business that is done in Japan by your high-quality firms, and in some other countries where there are barriers.

I hope you will be able to send that geographical breakout in the near future.

Thank you very much, Mr. Chairman.

Chairman GIBBONS. Mr. Black, how long do you think it would take us to develop a position and negotiate an international code on intellectual property right?

Mr. BLACK. My understanding, Mr. Chairman, is that it will not be a very short and quick process. However, if it is placed at a top of the negotiating priority package, I think there are a number of other countries who share many of our concerns; an increasing number of countries I think are moving somewhat in our direction.

My sense is if it is given a priority—I understand it is difficult in negotiations, but I think it will not take us as long as some others and the 5- to 10-year timeframe is not the timeframe we would envision. Quite honestly, I think we need some resolution of these decisions in a shorter timeframe than that, so I hope it would be negotiated more quickly.

Chairman GIBBONS. That worries me, too. It sort of signifies that if it is going to take 10 to 15 years to do intellectual property, we are not in very much of a hurry it seems like.

It looks like to me that we can get an intellectual property code out within a 2- to 3-year timeframe, and if we couldn't, we at least know where the problems were, and would know what to do about it, or know what domestic response to take.

I am worried about all these people that talk in 10- to 15-year timeframes. I guess being 67 years old brings that on you, but you know I can't see any sense of urgency in anything that is put in a 10- or 15-year timeframe, and I think there is a sense of urgency here.

Is the problem that we don't know what we really want in the intellectual property rights area? Has American industry come together on what it really wants in the intellectual property rights area?

Mr. BLACK. I think that there has been a growing consensus on how to proceed. I think it is true that there has not been a complete perception or understanding of everything that is involved.

I think some of the delay in negotiations, though, would come because a number of other countries are really redefining for themselves where their interest is, as they move up the technological ladder and have more to worry about protecting than taking in the process.

I think you are seeing a shifting of the positions of some other countries, and part of it may be what will take some time is simply that you need more. You do need a number of countries for the industries involved to really become educated, to become willing to sit down and see the broad international benefits of having a uniform standard. It is still an area where they can make some quick gains but not having standards.

Chairman GIBBONS. Europe is a highly industrialized society, and Japan is a highly industrialized society, and they have got essentially the same problem as we have in the area. Why couldn't we come to an agreement with those people on a much shorter time scale than 15 years or 10 years?

Mr. HENRIQUES. I was just going to make the comment, Mr. Chairman, that as a mechanism we should continue to press forward on bilaterals as we have been successfully, reasonably successfully with Korea, Taiwan, Malaysia, and Singapore.

The People's Republic of China has a commission to investigate the copyright law and they have been in contact, in conference both with industry and Government in this country, and let the

GATT go ahead with its process, and I think the bilaterals will serve as a needle to the GATT to keep moving, but I think something else has to happen, and that is that we have to get our house in order in the United States.

Japan, Canada, most of the European countries are adherents to the Berne Convention. We are not, and not being adherents, we go out and we preach, we sound very good, but we are not necessarily as convincing as we might be.

Chairman GIBBONS. That is a good point.

Mr. Frenzel.

Mr. FRENZEL. Mr. Chairman, I regret I did not hear the original testimony of the witnesses which I am reviewing now. Their organizations have been consistent and sound advisers to this subcommittee. I appreciate their being here. I will have a chance to review their material.

I yield the balance of my time.

Chairman GIBBONS. Thank you.

Thank you, gentlemen.

As we began our hearing today with a lady, we are going to close with two ladies, Citizens for a Sound Economy and Consumers for World Trade. Please come forward, Mary Alexander and Doreen Brown. We will be happy to hear you.

STATEMENT OF DOREEN L. BROWN, PRESIDENT, CONSUMERS FOR WORLD TRADE [CWT]

Ms. BROWN. Thank you, Mr. Chairman.

There are a number of proposals in H.R. 3 which are of particular concern to us from the point of view of the consumer interest. I would like to focus on those, if I may.

Chairman GIBBONS. I wish you would, Ms. Brown. That would be very helpful.

Ms. BROWN. The reason, of course, for our concerns is the cost of trade restrictive legislation; the fact that trade restrictions act as a hidden tax and a regressive tax on American consumers.

One of our greater concerns is that of the weakening or transferring of decisionmaking authority away from the President to any other body.

According to the present law in the Trade Act of 1974, the President must take into account broader factors such as the effectiveness of relief, international interests, and consumer interests when he is considering what type of action to take on an ITC recommendation.

This mandate did not exist before the Trade Act of 1974, and it is the only time in the entire act that the consumer is mentioned.

It is understandable, therefore, that we do not want to see that mandate removed or weakened in any way. In addition, the President being the only elected official with a national constituency is the proper person to fulfill that responsibility.

Hand in hand with that is our concern about automaticity. We oppose the call for automatic relief or retaliation for two reasons.

The first is because, it would weaken the President's discretionary right to dispose of cases in a manner which he deems most favorable for the Nation as a whole. The President must be allowed

the flexibility necessary to carry out his constitutional responsibilities. I am stressing this point, Mr. Chairman, whether or not we happen to agree with whatever the Presidential decision may have been at any particular time.

The second reason we are concerned about automaticity is that despite the fact an industry may be harmed or threatened by imports, particularly if they are fairly traded imports, it does not justify, in our view, automatic relief at any cost. The cost may be substantial for consumers, other industries, jobs, and U.S. exports.

A lot of this concern about automaticity in the Congress was brought about by the President's refusal to take action on the ITC recommendation on the shoe case in 1985. That led to assertions that relief was not available under the present statute. Therefore, the statute had to be changed.

On the contrary, CWT believes that was a justified action by the President as he applied the criteria that were required by the Trade Act of 1974. He determined, in fact, that the industry would not be helped by the proposed relief, that retaliation was likely to occur, and that it entailed a huge cost to consumers.

The details on the costs attached to footwear protection are elaborated upon in the full testimony.

With reference to trade adjustment assistance: protection may indeed save some jobs in the short term, but does not guarantee job security, and certainly does not come free. It is not cost-effective to the national economy: in the automobile sector, for example, it costs \$160,000 to protect a \$23,300 job; in steel, \$110,000 for a \$27,000; in textiles, \$42,000 for a \$14,000 job.

Because of this, CWT would support, in general, some form of temporary assistance to workers displaced because of imports. Logically, we also favor support for workers displaced because of other trade actions such as retaliation by a trading partner or any other trade limiting action. Emphasis, should be on retraining and relocating the worker and not on a direct subsidy to the industry.

With regard to negotiating authority, we strongly support a new round of GATT negotiations. We believe the system has been badly weakened, and we feel—more strongly, let us say, than some other witnesses today—that the overuse of unilateral, bilateral and regional actions by the United States has helped to weaken the multinational system.

Although we would approve of general guidelines being included in the bill, it would be self-defeating to tie the hands of the GATT negotiators with preconditions that would impede their ability to deal with agenda items favorable to the U.S. interest.

A satisfactory settlement of the disputes over the agenda at the ministerial meetings in Punta del Este certainly showed that flexibility was necessary in order to achieve what we did achieve.

We support fast-track procedure for approval of agreements, and we support congressional approval of individual agreements as they are reached, which, in relation to the chairman's concerns that the talks will go on for a terribly long time, would expedite implementation of each accord.

We agree that because there are so many new and controversial issues in the new round of international talks, these will be prolonged talks.

We also support consultations with Congress and the private sector as they are necessary.

Concerning CWT proposals to amend the Trade Act, I would like to repeat the proposal we made last year and which was adopted by this committee, and to elaborate on it.

I think it was lost somewhere on the floor of the House, but what I would like to suggest is not only that it be retained but also that it be expanded. The reason for it is that the impact on consumers and on the national economy of remedies in unfair trade practices cases has over the years been considered only at the last stages of the decisionmaking process.

Meanwhile, the American public has been saturated with graphic stories of the distressed industry and its workers, but little publicity is given to the effect of a proposed remedy on the Nation and on its citizenry.

Consumers have limited opportunity to testify before the ITC and seldom have available information to press their case effectively. As a result, there is little public awareness and reaction to such trade actions and their consequences.

Therefore, we would propose that we retain in the act, first, a requirement that the ITC prepare and publish an analysis of the economic impact of the duty on import restrictions under consideration which would include all of the broad issues which the President is mandated to consider as well as the cost to consumers, of course, the effect on prices, pre-tax revenues, and jobs in the present ailing industry, the effect on output, employment, and profits in related industries; and in the case of quotas, the effect on the current account balance and on the GNP.

Added to that recommendation which we made last year, we would like to suggest, in the same context, that the Congress as well when it is considering a major trade action publish and make public the cost impact of that action before it is taken.

We have additional details on these two proposals in the full text of our testimony.

These proposals are not intended to prevent grants of import relief when they are justified but to assure that decisions about them be taken in the light of a comprehensive evaluation of their likely economic aftermath and also—and this is extremely important to us—to enhance public awareness.

I thank you.

Chairman GIBBONS. Thank you.

[The statement of Doreen L. Brown follows:]

Statement of Doreen L. Brown, President,
Consumers for World Trade

EXECUTIVE SUMMARY

I am Doreen Brown, the President of Consumers for World Trade. Consumers for World Trade (CWT) is a national non-profit organization, established in 1978, concerned with the interest of consumers in international trade policy. We believe a significant threat to consumers would result if some of the proposals contained in H.R. 3 were adopted by the Congress.

Comprehensive trade legislation should be designed to expand trade globally, lower trade barriers in the U.S. and other trading nations and strengthen the multilateral trading system. Placing trade restrictive proposals into a statute would ensure their perpetuation long after their alleged need.

The Cost of Protection

When trade restrictions are imposed, consumers face inflated domestic, foreign and retail prices. Trade restrictions act as a hidden tax and a regressive tax on American consumers. It is not visibly explained on a product and it is low, fixed-income individuals and unemployed workers who bear the heaviest economic burden. Restrictions represent a 23% income tax surcharge on people earning less than \$10,000 yearly and cost all consumers over \$55 billion yearly - \$65 billion in 1986 alone.

Decision Making Authority

CWT opposes proposals to transfer or weaken decision-making authority from the President. According to present law, the President must take into account broader factors such as the effectiveness of the relief; international interests and the consumer interest. This mandate did not exist before the Trade Act of 1974. The President, the only elected official with a national constituency, is the proper person to fulfill that responsibility.

Automaticity

Cwt opposes the call for automatic relief or retaliation. This would weaken the President's discretionary right to dispose of cases in a manner which he deems most favorable for the nation as a whole. The President must be allowed the flexibility necessary to carry out his constitutional responsibility.

The fact that an industry may be harmed or threatened by imports, particularly fairly-traded imports, does not justify automatic relief at any cost. The cost may be substantial for consumers, other industries, jobs and U.S. exports.

The President's refusal to impose quotas on imported non-rubber footwear in 1985 resulted in assertions that relief is not available under the present statute. On the contrary, it was a justified application of the criteria required by the Trade Act. The costs attached to footwear protection are detailed in the full statement.

Trade Adjustment Assistance

Protection saves some jobs only in the short-term and it does not guarantee job security. But it does not come free and is not cost effective to the national economy. In the auto sector, for example, it costs \$160,000 to protect a \$23,300 job; in steel, \$110,000 for a \$27,000 job; in textiles \$42,000 for a \$14,000 job.

Generally, CWT supports some form of temporary assistance to workers displaced because of imports. Logically, we also favor support for workers displaced because of other trade actions, such as retaliation or any trade-limiting action. Emphasis should be on retaining and relocating the worker, not a direct subsidy to the industry.

There is some merit to linking import relief to an adjustment plan, but it raises questions concerning the type of adjustment needed to compete in the world market and how progress in implementing the plan is to be determined. In any case, the President should retain the authority to determine whether the recommended relief is compatible with U.S. national economic interests.

Negotiating Authority

CWT strongly supports negotiating authority for a new round of international talks. The multilateral conduct of trade, as established by the GATT, has been overcome by unilateral, bilateral, and regional actions. Clearly, Article 1 of the GATT has been seriously weakened.

It would be self-defeating, however, to tie the hands of our GATT negotiators with pre-conditions that would impede their ability to deal with agenda items favorable to U.S. interests. The satisfactory settlement of disputes over the agenda during the preliminary ministerial meetings at Punta del Este is proof of the need for flexibility.

"Fast Track" procedure for approval of agreements and congressional approval of individual agreements as they are reached will enhance the success of the negotiations and ensure prompt implementation. Consultation with Congress and the private sector should take place, as necessary.

CWT Proposals to Amend the Trade Act

The impact on consumers and on the national economy of escape clause and unfair trade practices cases has, over the years, been considered only at the last stages of the decision-making process. Meanwhile, the American public has been saturated with graphic stories of the distressed industry and its workers, but little publicity is given to the effect of a proposed remedy on the nation and its citizenry. Consumers have limited opportunity to testify before the International Trade Commission and seldom have available information to press their case effectively. As a result there is little public awareness and reaction to such trade actions and their consequences.

CWT proposes an amendment to the Trade Act which would require that the ITC prepare and publish an analysis of the economic impact of the duty or import restriction under consideration. This analysis should include the broad issues which the President is mandated to consider as well as others: the cost to consumers; the effect on prices, pre-tax revenues, and jobs in the ailing industry; the effect on output, employment and profits in related industries; in the case of quotas, the effect on the current account balance and on the GNP.

In the same context, CWT proposes that the Congress, as well, make public the various costs of a major trade action before that action is taken. Additional details on these proposals are provided in the full text of our testimony.

Conclusion

Although there is no such thing as a perfect statute, there are infinite dangers in trying to revise laws to meet everyone's needs. Section 201 and 301, when used judiciously, have generally worked as designed. We might profit from seeing whether our own trade practices, albeit better than some others, would stand up to the requirements of our own laws.

It is essential for the U.S. to strive for thoughtful trade policies which recognize the fact that a healthy trading system cannot be achieved if the leading trading nation abandons the principles of open multilateral trade in favor of the quick fixes of protectionism. This is an ineffective solution which results in a heavy cost to all, especially the American consumer.

CWT RECOMMENDATIONS

1. An amendment to the Trade Act of 1974, requiring that the International Trade Commission (ITC) prepare and publish an analysis of the economic impact of the duty or import restriction considered on consumers, other industries, exports and the national economy.
2. The President should retain decision-making authority.
3. The President's discretionary authority should not be weakened by requirements for automatic relief or retaliation.
4. Workers displaced by imports or by trade-restrictive actions should be given temporary assistance in retraining and relocation.
5. The linkage of import relief to an industry adjustment plan should be considered, as long as the President retains final decision-making authority.
6. Negotiating authority for a new GATT round should be given. Negotiators must be allowed sufficient flexibility. Fast track procedure for approval should be adopted. Individual agreements should be approved by Congress as they are reached.
7. The U.S. must not abandon the principles of an open multinational trading system for protectionist policies which are ineffective and costly to consumers.

I am Doreen L. Brown, President of Consumers for World Trade. Consumers for World Trade (CWT) is a national, non-profit organization, established in 1978, concerned with the interest of consumers in international trade policy. We believe a significant threat to consumers would result if some of the proposals contained in H.R. 3 were adopted by the Congress.

We believe that any comprehensive trade legislation should be designed to expand trade globally, lower trade barriers in the U.S. and other trading nations and strengthen the multinational trade system. Efforts to reduce our trade deficit by trade restrictive methods are shortsighted and are certain to exacerbate the trade problems which the legislation is intended to correct. Furthermore, experience has shown that trade restrictive policies are seldom temporary. Placing them in a statute will assure their being perpetuated long after their alleged need.

The Cost of Protection

Whenever trade restrictions are imposed by the United States, American consumers are subjected to artificially inflated prices. Domestic prices are higher because of the easing of competition; foreign prices are higher to compensate for a smaller volume of sales and retail prices are higher because retailers base their profit margin on the landed cost of goods.

The consuming public, however, is seldom aware of the reason for these inflated costs. There is no label in a garment or tag on a product with an explanation. Trade restrictions, therefore, act as a hidden tax.

Since it is usually low-cost items, the ones with which we have the most difficulty competing, upon which barriers are imposed it is low-income and fixed income individuals and unemployed workers (who remain consumers even while they are not earning) who bear the heaviest economic burden. Trade restrictions, therefore act as a regressive tax, a concept which the Congress has long rejected. It represents a 23% income tax surcharge on people earning less than \$10,000 a year, and a 3% tax on those earning more than \$60,000 a year (the Consumer Cost of U.S. Trade Restraints, Federal Reserve Bank of New York Quarterly Review, Summer 1985)

American Consumers have been paying over \$55 billion yearly more than they should become of trade restrictions and \$65 billion for 1986 only. (Hufbauer, Berliner, Elliott, Trade Protection in the United States: 31 Case Studies, Institute of International Economics, 1986)

Furthermore, consumers are robbed of a discretionary income. Having to pay more for the basic necessities such as food, clothing and housing, they will forego purchasing other products. As a consequence, an efficient, competitive industry will be harmed for the sake of protecting an inefficient one. This is a serious misallocation of resources.

Decision-making Authority

CWT opposes any proposal to transfer or weaken decision-making authority on 201 or 301, 337 or any other case from the President to USTR or any other body. According to present law, the President in making his decision to accept, alter or reject an ITC recommendation for relief to an injured industry, must take into account a number of additional factors, such as: the effectiveness of the proposed relief; competition; international interests and the effect of the remedy on consumers. This mandate to consider the interest of consumers did not exist before the Trade Act of

1974, and it is the only time that the consumer is mentioned in the entire law. The consumer interest should be a major factor in the formulation and conduct of trade policy, since the American public pays the ultimate price of trade restrictive practices. Any actions which affect consumers negatively, affects the jobs, industries and national economy as well. This is why the mandate to consider their interest can be neither ignored nor eliminated. The President, the only elected official with a national constituency, is the proper person to fulfill that responsibility.

Automaticity

CWT opposes the call for mandatory relief or retaliation contained in some of the proposals. This would weaken the President's discretionary right to dispose of cases in a manner which he deems most favorable for the nation as a whole. The President must be allowed the flexibility necessary to carry out his constitutional responsibility.

The fact that an industry may be harmed or threatened by imports, particularly fairly-traded imports, does not justify automatic relief at any cost. That cost may be substantial for other industries, jobs, export markets and consumers.

No trade action should be taken in a vacuum, nor can its effects be contained. If the relief entails tariffs, or quantitative restrictions, prices will be inflated. If the product in question is a component part of a U.S. manufactured product, that product will be less competitive in the world market and too costly for domestic consumption.

To the extent that automaticity proposals were prompted by the President's rejection, in 1985, of quotas for imported non-rubber footwear, it is a mistake to conclude that this indicated an unavailability of import relief under the present statute. To the contrary, this case demonstrated the justified application of broad criteria as required by the Trade Act. In this instance, the President did not consider that the ITC's trade-restrictive remedy, based on past history, would be an effective way to help the industry. In addition, he felt that imposing quotas would result in certain retaliation by our trading partners and in a huge cost to consumers.

This last concern was verified in an economic study prepared by International Economic, Inc. under the direction of Dr. William R. Cline which indicated that reducing footwear imports by 18 to 24 percent would have cost American consumers \$2 billion annually in extra costs; increased prices by 13 percent and decreased consumption by nearly 3 percent. Total consumer costs would have been \$10 billion or higher over a five year period. The consumer cost per job created in the industry would have been as high as \$62,400. The ITC, itself, estimated a cost of approximately \$50,000 per \$14,000 a year job saved. The heaviest part of this burden would have been forced upon low and fixed-income consumers. These statistics certainly justify the President's decision.

Unfortunately, there are occasions when the President has rejected an ITC proposal and opted for negotiated voluntary export restraint (VERs) arrangements which would afford comparable relief to an injured industry. Unfortunately, these VERs do not take into account the consumer interest. The recent cases of steel and automobiles are clear examples. CWT opposes the use of VERs as a method of quantitatively restricting imports without regard for the negative effect of these restrictions on the national interest.

Trade Adjustment Assistance

Protection does save some jobs in the short-term. But it does not come free and it is not cost effective to the national economy. For example, in the automobile sector it costs \$160,000 to protect a \$28,300 job; in steel, \$110,000 for a \$27,000 job; in textiles, \$42,000 for a \$14,000 job and in footwear, \$50,000 for a \$14,000 job. (ITC Report and Council of Economic Advisors Unpublished Report).

Furthermore, protection does not guarantee job security. It is evident that in order to achieve competitiveness American industries will have to become less job intensive and focus their resources on R and D and modernization.

Generally, CWT supports some form of temporary assistance to workers in a non-competitive industry who have been displaced because of imports. (Pure logic would suggest that such assistance should be tendered as well to workers displaced because of retaliation against a U.S. industry or those whose jobs were related to an imported product which has been affected by a trade-limiting action.) We believe that in developing an effective adjustment assistance plan the emphasis should be on retraining and relocating the worker, not on a direct subsidy to the industry.

CWT finds the proposal of linking import relief to an adjustment plan drawn up by representatives of labor, management, consumers and communities worthy of serious consideration. It raises questions, however, on the ability to determine the type of adjustment necessary to ensure competitiveness in an open market, and how progress in implementing the plan is to be measured. Should this proposal be adopted, the President should retain the authority to determine whether the recommended relief is compatible with the U.S. national economic interest.

Negotiating Authority

CWT strongly supports negotiating authority for a new round of international talks. We have reached a critical time in our trading system, when the multilateral conduct of trade as established in the GATT has been overcome by unilateral, bilateral and regional trade actions. Clearly, Article I of the GATT has been seriously weakened. In order to restore confidence in the GATT as the best vehicle for the governance of international commerce, it must be strengthened and its coverage extended to issues of present concern.

Although a list of general objectives would serve as useful guidelines, it would be self-defeating to tie the hands of our GATT negotiators with pre-conditions that would impede their ability to deal with agenda items favorable to U.S. interests. The satisfactory settlement of disputes over the agenda during the preliminary ministerial meetings at Punta del Este is proof of the need of flexibility.

"Fast track" procedure for approval of the Uruguay round will enhance the viability of our negotiators. Consultations with Congress and the private sector, as frequently as necessary, should be mandated.

Because this new round of international talks involves many new and controversial issues, it is anticipated that the Uruguay round will be prolonged. Therefore, Congressional approval of individual agreements as they are reached would be appropriate and would ensure faster implementation of the agreements.

CWT Recommendations - Proposed Amendments to the Trade Act

As stated in the body of our testimony, the effect of trade actions on consumers and other aspects of our national economy are not visible enough to the public and to policy makers.

We have followed escape clause and unfair trade practices cases over the years, and have been very concerned that the economic impact of trade remedies on consumers and on the nation as a whole is considered only at the very last stages of the decision-making process. By the time the President announces his decision, the American public has been saturated with graphic stories of the problems of the ailing industry and its workers. The effect of a proposed remedy on the nation and its citizenry, however, is never adequately publicized. Unlike an action taken by Congress, the consumers' opportunity to make their views known before the International Trade Commission (ITC) is limited and, unless an independent economic study has been prepared, consumers do not have enough information to present their side effectively. As a result, there is little public awareness and reaction to such trade actions and to their consequences.

1. CWT believes that the cost of a proposed remedy should be researched and made public from the time the remedy has been selected up to the President's final determination. In this context, we are proposing an amendment to the Trade Act which would require that the ITC prepare and publish an analysis of the economic impact of the duty or import restriction under consideration.

The analysis could include broader issues which the President is mandated to consider and others. For example:

- An estimate of the cost to consumers of the restrictions.

- An estimate of the effect on prices, pre-tax revenues, and jobs in the industry(ies) to be protected.

- An estimate of the effect on output, employment and profits in related industries, taking into account the effect on production costs and the international competitive position of these other industries. The estimates should take into separate account the effects of possible retaliatory trade actions by our trading partners.

- In the case of quotas or other quantitative restraints, an estimate of the effect on the current balance of the U.S. payments account.

- An estimate of the net impact on the GNP.

The remedies proposed to afford relief to an import injured industry have an impact going far beyond the protected sector. If the products involved are inputs for other industries, such as steel and copper, prices and competitive positions in those industries are affected. If the products are for final consumption, such as shoes, the position of retailers is worsened. At the end of the line, whatever the products concerned, the income of consumers is reduced. Beyond that, since import protection is a decision to forego efficiency gains from trade, the national economy loses.

The broader consequences of protection are not adequately recognized in trade laws. Section 202c of the Trade Act of 1974 directs the President to take some of the secondary considerations

into account when deciding upon escape clause relief. It does not cover, all of the remedies the full range of the adverse effect of protection, nor does it require that the full findings be made public. This recommendation was approved by the Ways and Means Committee last year.

Techniques for assessing relative costs and benefits of import relief have been improved in recent years. When such assessments have been made the basis for decision-making has been notably broadened. The proposal herein is to make the cost-benefit assessment a standard practice in the consideration of claims for protection. It would not prevent grants of import relief but it would assure that decisions about them would be taken in the light of a comprehensive evaluation of their likely economic aftermath.

2. In the same context, CWT also proposes that the Congress, before acting on any major trade legislation, publicizes the broader costs of such an action. We cannot emphasize enough how important it is for the consumer to understand the broader effects of international actions. We believe strongly that responsible public awareness would result in a more effective conduct of our country's trade policy.

Conclusion

There is no such thing as a perfect statute. However, there are infinite dangers in attempting to revise laws so that they meet the needs and interests of everyone affected without endangering the national interest. CWT believes that the principal shortcoming of the international trading system is that the domestic import relief laws are not accepted as a rule of conduct for U.S. trade policy but as a means of protecting domestic producers from foreign competition or as a threat to our trading partners to achieve export market expansion. In trying to solve trade problems, we believe it is more efficient to place the emphasis on the carrot rather than the stick. In many cases, the waving of the stick, in of itself, is trade distorting. Sections 201 and 301, when used judiciously, have generally worked as designed. We should be asking ourselves if our trade practices, albeit better than some others, would stand up to the requirements of our own laws.

At a time when strong protectionist sentiment is endangering our country's open trade posture, it is essential for Congress and the Administration to strive for thoughtful trade policies aimed toward a global liberalization of markets rather than the closing of U.S. doors to foreign products. Such policies recognize the fact that a healthy trading system cannot be achieved if the largest trading nation abandons the principles of open multilateral trade in favor of the quick-fixes of protectionism. Protectionism is not an effective solution. It has been tried many times and has failed, at a heavy cost to all concerned, especially the American consumer.

Chairman GIBBONS. Ms. Alexander.

**STATEMENT OF MARY K. ALEXANDER, DIRECTOR, TRADE
PROJECT, CITIZENS FOR A SOUND ECONOMY**

Ms. ALEXANDER. I am pleased to be here before you today to discuss our views on U.S. trade competitiveness. Citizens for a Sound Economy is a public policy organization that believes in greater consumer choice and economic opportunity. Our support comes from the contributions of 250,000 individual members throughout the United States who believe in an economy where consumers and businesses trade freely, unfettered by restrictive government policies and requirements. It is this type of economic environment that will best nurture industrial competitiveness and overall economic growth.

Although H.R. 3 is intended to make the United States more competitive, CSE fears it may do just the opposite. Provisions like mandatory retaliation to reduce foreign trade surpluses and to require workers' rights adherence will only discourage trade and not encourage American businesses to work harder. Competitiveness means economic growth and greater efficiency; any proposal that hampers growth and efficiency is anticompetitive.

Three disparate areas of H.R. 3 which are not particularly pro-competition deal with unfair trade practices, worker retraining program financing, and resource input subsidies.

Popular rhetoric concentrates solely on the unfair trade practices of foreign countries. The 1984 trade bill required the USTR to publish an annual report by the USTR on foreign trade barriers. This report does not prioritize which barriers are more serious than others, and it makes no comparison to similar U.S. practices.

Using this report, many say it is time to get tough. Much of H.R. 3 is designed to fight those foreign trade practices on an adversarial basis, using a stick approach rather than a carrot approach. But I would like to suggest that first we should stand back and recognize that we are not untarnished nor pure in our own trade practices. The International Monetary Fund places the United States just about average—at 46 percent—in the amount of managed trade practiced by any country. Gary Hufbauer, an economist at Georgetown University, estimates our own barriers cost consumers \$65 billion in 1985. We need to put the debate in the proper perspective.

Here are a few areas where we have been criticized for restricting trade. The Meat Import Act allows the President to arbitrarily set quotas on beef imports if levels get too high. Our sugar program severely limits the amount of sugar imported into the United States and thus has raised the price of sugar by over 400 percent. Our buy national and cargo preference requirements add extra costs to the consumer for Government procurement and shipping. And the 1,000 pages of customs regulations, like country of origin requirements, and the quantity of paperwork associated with any shipment, certainly discourage trading.

To reduce some of the emotionalism generated by misunderstood concern over high trade deficits, I would like to suggest that trade legislation include a requirement for extra information in any

future National Trade Estimates report of foreign trade barriers. The report should include a priority list on the most to the least serious trade practice for each country based on costs to our economy and a comparison to similar practices here in the United States.

The Department of Labor has proposed a new worker assistance program for the temporarily unemployed. Although philosophically I wonder if worker retraining is better handled by individual companies rather than through another Federal bureaucracy, my big concern is how this \$1 billion worker retraining program will be financed.

Although I understand some existing worker programs will be combined, \$570 million in new funds has to be found. Suggestions for this financing include a new payroll tax, another import surcharge tax, or auctioning quotas. Both a payroll tax and an import tax should be anathema because of exactly what they are, tax increases either obvious or hidden.

Because the idea of selling to the highest bidder the right to import into the United States goods is so novel, it is generating widespread interest. However, actual support for auctioning quotas is ill advised. They would create another bureaucracy and would be very hard to administer.

The mere existence of legal provisions providing for auctioning quotas may force other countries to adopt hidden export restraints to avoid the disruption and unpredictability implied by auctioning. Once the program is in effect, other auctionable quotas may be set for different industrial sectors.

Before we know it, we might have a whole system of regulated trade with an accompanying depression in U.S. economic growth. Auctioning quotas advances protectionism and should be avoided.

Finally, we are concerned about proposed natural resource subsidy legislation. In present law we ask if the subsidy is provided to a specific industry. But this proposal establishes the Government sale of an input product to any industry as also a subsidy. This is like doing away with the injury standard under section 201. The specificity test must remain in our countervailing duty law.

According to a study conducted by Wharton Econometrics, consumer prices will rise by approximately one-half a percent if countervailing duties are levied on imports that use natural resources, such as petrochemicals, fertilizers, and softwood lumber entering the United States.

Not only will American citizens be forced to contend with higher prices, they will also experience a loss in income to be about \$28 billion between 1986 and 1994. This figure does not include additional losses if other countries retaliate—a near certainty because many countries depend on natural resource product exports. Loss of personal income with retaliation could approach \$41 billion.

Import restrictions and export impediments do not help our economy prosper. They only add billions of dollars to consumer prices, slow economic growth, and put our own businesses, trying aggressively to expand overseas, at a competitive disadvantage.

I know this subcommittee recognizes these concerns, and I am encouraged that with thoughtful input from all parts of our economic community, a truly protrade, not protectionist, bill will emerge.

[The statement of Mary K. Alexander follows:]

MARY K. ALEXANDER, DIRECTOR, TRADE PROJECT
CITIZENS FOR A SOUND ECONOMY
TESTIMONY BEFORE THE SUBCOMMITTEE ON TRADE
HOUSE WAYS AND MEANS COMMITTEE
FEBRUARY 18, 1987

Mr. Chairman and other distinguished members of this subcommittee, I am pleased to be before you today to discuss our views on U.S. trade competitiveness and to comment on various proposals touted to increase that competitiveness in the world.

Citizens for a Sound Economy is a public-policy organization that believes in greater consumer choice and economic opportunity. Our support comes from the contributions of 250,000 individual members throughout the United States who believe in an economy where consumers and businesses trade freely, unfettered by restrictive government policies and requirements. It is this type of economic environment that will best nurture industrial competitiveness and overall economic growth.

Although H.R. 3 is intended to make the United States more competitive, CSE fears it may do just the opposite. Provisions like mandatory retaliation to reduce foreign trade surpluses and to require workers' rights adherence will only discourage trade and not encourage American businesses to work harder. Competitiveness means economic growth and greater efficiency; any proposal that hampers growth and efficiency is anti-competitive.

Three disparate areas of H.R. 3 which are not particularly pro-competition deal with unfair trade practices, worker retraining program financing, and resource input subsidies.

Unfair Trade Practices

Popular rhetoric concentrates solely on the unfair trade practices of foreign countries. The 1984 trade bill required the USTR to publish an annual report by the USTR on foreign trade barriers. This report does not prioritize which barriers are more serious than others, and it makes no comparison to similar U.S. practices.

Using this report, many say it is time to get tough. Much of H.R. 3 is designed to fight those foreign trade practices on an adversarial basis, using a stick approach rather than a carrot approach. But I would like to suggest that first we should stand back and recognize that we are not untarnished nor pure in our own trade practices. The International Monetary Fund places the United States just about average (at 46 percent) in the amount of managed trade practiced by any country. Gary Hufbauer, an economist at Georgetown University, estimates our own barriers cost consumers \$65 billion in 1985, up from \$50 billion in 1984. We need to put the debate in the proper perspective.

Here are just a few examples where we have been criticized by the rest of the world for restricting trade. The Meat Import Act allows the president to arbitrarily set quotas on beef imports if levels get "too high." Our sugar program severely limits the amount of sugar imported into the United States and thus has raised the price of sugar by over 400 percent. Our buy national and cargo preference requirements add extra costs to the consumer for government procurement and shipping. And the 1000 pages of customs regulations, like country of origin requirements, and the quantity of paperwork associated with any shipment, certainly discourage trading. The Scofflaw provision in H.R. 3, which prohibits a company from importing if three instances of fraud are determined, is an excellent example of a

provision that will discourage trade rather than encourage it. It should be dropped.

While you consider ways to change our trade laws to become more competitive, let me mention a few hindrances to our own businesses who are trying to compete successfully in the world. Export licensing requirements, the vagueness of anti-bribery legislation, outdated antitrust laws, and actual bans on the export of certain non-strategic products all put the U.S. at a disadvantage in the world marketplace. If we want to increase American exports, we must make them legal.

To reduce some of the emotionalism generated by misunderstood concern over high trade deficits, I would like to suggest that trade legislation include a requirement for extra information in any future National Trade Estimates report of foreign trade barriers. The report could include a priority list of the most to the least serious trade practice for each country based on costs to our economy, and a comparison to similar practices here in the United States. In addition, a first step toward increased competitiveness is lifting some of the restrictions we now impose on our own exports, as I just described.

Worker Adjustment

H.R. 3 deals with the temporarily displaced worker while our economy is in this state of transition. The Department of Labor has proposed a new worker assistance program for the temporarily unemployed. Although philosophically I wonder if worker retraining is better handled by individual companies rather than through another federal bureaucracy, my big concern is how this \$1 billion worker retraining program will be financed. Although I understand some existing worker programs will be combined, \$570 million in new funds has to be found. Suggestions for this financing include a new payroll tax, another import surcharge tax, or auctioning quotas. Both a payroll tax and an import tax should be anathema because of exactly what they are, tax increases either obvious or hidden. Because the idea of selling to the highest bidder the right to import into the United States goods such as automobiles, steel, sugar, textiles and clothing, is so novel, it is generating widespread interest. However, actual support for auctioning quotas is ill-advised.

Quota auctioning would create another bureaucracy with the associated disruptive costs and abuses, and would be very hard to administer. Some have used Australia as an example of a country with a successful quota auctioning procedure. However, Australia uses quota auctioning as part of an industry restructuring package where quotas are increased; increasing quotas for products such as sugar, textiles and steel, are not being proposed here in the U.S. The mere existence of legal provisions providing for auctioning quotas may force other countries to adopt hidden export restraints to avoid the disruption and unpredictability implied by auctioning. Once the program is in effect, other auctionable quotas may be set for different industrial sectors. Before we know it, we might have a whole system of regulated trade with an accompanying depression in U.S. economic growth. Auctioning quotas advances protectionism and should be avoided.

Natural Resource Subsidies

Finally, we are concerned about proposed natural resource subsidy legislation. If resource input subsidies are now to be included in the definition of countervailable subsidies, the entire definition is changed. In present law we ask if the

subsidy is provided to a "specific" industry. But this proposal establishes the government sale of an input product to any industry as also a subsidy. This is like doing away with the "injury" standard under Section 201. The specificity test must remain in our countervailing duty law. Such an amendment would change our entire approach to foreign domestic subsidies, making us much more vulnerable to similar actions by our trading partners.

According to a study conducted by Wharton Econometrics, consumer prices will rise by approximately one-half a percent if countervailing duties are levied on imports that use natural resources, such as petrochemicals, fertilizers, and softwood lumber entering the United States. The National Association of Home Builders has predicted a price increase of between \$800 and \$1000 for an average new home due to the imposition of the 35 percent tariff on Canadian shakes and shingles and the 15 percent export tax on Canadian softwood lumber. Not only will American citizens be forced to contend with higher prices, they will also experience a loss in personal income. The Wharton study projected this loss in income to be about \$28 billion between 1986 and 1994. This figure does not include additional losses if other countries retaliate--a near certainty because many countries depend on natural resource product exports. Loss of personal income with retaliation could approach \$41 billion.

Import restrictions and export impediments do not help our economy prosper. They only add billions of dollars to consumer prices, slow economic growth, and put our own businesses, trying aggressively to expand overseas, at a competitive disadvantage. I know this subcommittee recognizes these concerns, and I am encouraged that with thoughtful input from all parts of our economic community, a truly pro-trade, not pro-protectionist, bill will emerge.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman.

I want to thank our distinguished panelists for their testimony today, and in reference to Ms. Alexander's testimony, we had a classic illustration of the sometimes hidden costs of attempting to deal with hardship that results from dislocations in some industries during the debate on the Textile Protection Act last year.

What evidence we had based upon outside economists analyzing that legislation suggested that to protect 71,000 jobs in textiles, we would have lost 62,000 jobs in retailing and transportation. That is mostly in States that had significantly higher levels of unemployment than the textile producing states.

But beyond that, that was before we could anticipate retaliatory measures designed primarily at U.S. agricultural exports which are still the biggest export that we engage in.

I think that too frequently when we get parochial in our orientation on trying to be helpful, we sometimes miss the broader picture.

In this whole debate—and I am sure you sat in on some of the previous testimony—this trade question and guaranteeing U.S. competitiveness should be oriented, it seems to me, primarily on protecting the American consumer.

If you are going to protect the American consumer, what is done with a view to showing compassion to, say, a sector-specific problem may end up being prodigiously injurious.

I think your illustration showed that our skirts are not entirely clean on the question of protection anyway, and we should not be going down the garden path in the name of fairness or even using a word like "competitiveness" to further restrict free trade in the world, but use whatever means we have to try and influence trading partners to move in the direction of expanding markets and not fighting retaliatory measures that ultimately redound to our economic injury at home.

Interestingly enough—I grew up in a kind of McKinley Republican family. My dad is still one of those people who subscribes to the old traditional Republican, probusiness, proindustry theory that we just put the walls up around the country and that generates jobs and that, in turn, is healthy to the American economy without ever a word being spoken in behalf of the consumer.

Samuel Gompers, the founder of the AFL-CIO, by contrast was one of the most militant free traders in our society. He really reflected probably more the views of Democrats in the country—well, certainly reflected their views more than McKinley did—but the Democrats were the quickest ones in those days to recognize that free trade was in the best interests of that person who earned his daily bread with the sweat of his brow.

Our parties have somehow gotten confused in the post-World War II era, where suddenly we hear from labor union leaders the old McKinley argument and the argument of the robber barons, and some Republicans but not all, are discovering some of the valid truths that were articulated by the Samuel Gompers in our national experience.

I commend you both. I think you are raising those points and they are points that really should not be partisan issues. They are

points that affect the welfare of our country, whether we are Democrats, Republicans, or vegetarians.

I simply want to salute you ladies for the testimony you brought before the committee today. Thank you.

Chairman GIBBONS. Mr. Frenzel.

Mr. FRENZEL. Thank you, Mr. Chairman.

I want to thank both our witnesses. Doreen, you have been coming here as long as anyone. Fortunately, up until now, we have most often accepted your good advice.

You cited the figure of \$65 billion for consumer costs of protectionism. Did you take that from the same study that was cited by Ms. Alexander, the Hufbauer study?

Ms. BROWN. Yes. I have the source in the full testimony.

Mr. FRENZEL. Was that study the one which produced the figures of the costs to protect jobs?

Ms. BROWN. No.

Mr. FRENZEL. Can you tell us where that came from?

Ms. BROWN. Yes. The Hufbauer-Berlin-Elliott study was the one that had the cost to the consumer of \$55 billion yearly over the years and \$65 billion for 1986.

The job protection costs came from two sources. An ITC report which provided the figures for shoes. That was \$50,000 for \$14,000 job and a Council of Economic Advisers' unpublished report gave the other job costs.

Mr. FRENZEL. That was CEA?

Ms. BROWN. Yes.

Mr. FRENZEL. It is an unpublished report?

Ms. BROWN. Yes.

Mr. FRENZEL. How did you get your pinkies on that?

Ms. BROWN. Naturally, it was unpublished but made public. We get an awful lot of material and an awful lot of statistics.

Mr. FRENZEL. Like some of our journalists, it just comes in over the door sill?

Ms. BROWN. Actually, "unpublished report" was the original title on it. The only way I could refer to it accurately was by using the title that was on the study.

Mr. FRENZEL. Thank you very much.

Ms. Alexander, you used to be a fellow sufferer on the other side of the Capitol.

Ms. ALEXANDER. That is right.

Mr. FRENZEL. We are glad to have both of you back. It sounds like your organization has been designed by Mr. Crane. At least, it fits his policies, and mine, too. I am grateful to both of you.

I yield the balance of my time.

Chairman GIBBONS. Mr. Pease?

Mr. PEASE. Mr. Chairman, I am sorry to have been late. I missed your testimony. I will make a point of reading it. I would just like to thank you for coming.

I must say I am intrigued that your policies appear to have been designed to suit our colleague, Mr. Crane. I have my appetite whetted even more.

Thank you, Mr. Chairman.

Chairman GIBBONS. Ms. Alexander, I am a free trader. I fail to follow you, how subsidized trade is free trade.

Ms. ALEXANDER. That is what I said. It is not free trade.

Chairman GIBBONS. That is what I say.

Well, how—what is the difference between subsidizing with a natural resource and subsidizing with dollars or with yen or whatever you are dealing in?

Ms. ALEXANDER. When I was talking about the subsidy, what I am most concerned about with natural resource subsidy—

Chairman GIBBONS. That is the same as dollars, yen, or whatever.

Ms. ALEXANDER. Well, our problem, our concern is we are talking about a domestic subsidy. The concern is if we start including this kind of domestic subsidy—

Chairman GIBBONS. I don't think the law has ever distinguished between. Our law has always said that any subsidy, any bounty or grant is a subsidy. It didn't say it had to be in dollars or yen or marks or anything. Any bounty or grant.

Ms. ALEXANDER. What I am talking about is adherence to the GATT Subsidies Code, and the agreement that the United States is against subsidies designed to help a specific industry, giving preferentiality to a specific industry.

In your proposal, if more than one industry uses a natural resource type subsidy, it is considered illegal and so we lose the specificity requirement.

Chairman GIBBONS. So a subsidy is a subsidy if it just affects none industry, but a subsidy is not a subsidy if it somehow affects two industries?

Ms. ALEXANDER. I mean an actionable subsidy, one that is countervailable.

Chairman GIBBONS. All you have to do to have subsidies predominate in trade is make sure you subsidize two, instead of one, under your definition? You point to the Wharton study. I think they just bought some publicity from Wharton. That group of companies that hired Wharton they knew what the answer was going to be before they ever got that study.

Ms. ALEXANDER. I also pointed out in my written testimony the National Association of Home Builders estimated—

Chairman GIBBONS. They were part of it. I know. Sure. They like everything subsidized if they could, including the interest rates. They have lived off of subsidies. Huge subsidies. One of the biggest subsidized things in America is the home.

We subsidized the interest rates, a lot of other things. You know, they didn't know anything about trade. They kind of wished they hadn't gotten caught with that other bunch. If you go talk to them over there, I think you will find they realized it was probably more complicated than when they put out that silly statement about \$1,500 a home.

Ms. ALEXANDER. CSE has been saying \$800 to \$1,000 a home.

Chairman GIBBONS. We could reduce home prices a lot. We could subsidize the price of real estate. We could—that is one of the biggest items in the home cost now, real estate.

I think the Wharton study is lousy.

Ms. ALEXANDER. Well—

Chairman GIBBONS. When Wharton wants to show up and refute that, they are welcome, right there where you are. That is a challenge.

Ms. ALEXANDER. Mr. Chairman, my point is that the National Association of Home Builders said a new home will cost more money.

Chairman GIBBONS. Sure it will. Sure it will. If we can subsidize it, all kinds of ways if you want to, to make it cheaper. That is not the question. You say you are for free trade. I ask you the question back how can you classify a subsidy as free trade?

It is inconsistent. It is as inconsistent as night and day.

Ms. ALEXANDER. We do have to be careful with our arguments because the United States has so many subsidies here in this country.

Chairman GIBBONS. I agree. We ought to get rid of them. We shouldn't excuse others because we make those. We ought to get rid of every subsidy we have got, every harmful subsidy. We would be a lot better off if we got rid of those cases' agricultural subsidies we have. They are completely idiotic, and that is just the beginning.

I can't understand your position. You are for free trade. Yet, if you subsidize two industries rather than one, it is all right.

Ms. ALEXANDER. What I am discussing with you is part of our countervailable duty law. It says if preferentiality is given to one specific industry, then it is countervailable. I just want to add, the U.S. subsidizes irrigation projects. If we include natural resources subsidy legislation, my worry is what other countries are going to do to us.

Chairman GIBBONS. They ought to retaliate against us. We either are going to be pure or we are not going to be pure in this thing. You can't be for free trade and be for subsidies. If our irrigation is affecting the price of our products in the export market, then we ought to pay the penalty for it. I don't have any objection to that.

I don't rationalize the same way you do, that if we subsidize two industries, it's all right if we subsidize one. It is wrong. As I say, I have no confidence at all in that Wharton study.

Thank you.

Mr. FRENZEL. Mr. Chairman?

Chairman GIBBONS. I figured I'd wake you up on that one.

Mr. FRENZEL. I want to be awakened by something else, actually, but you did wake me up. I will be glad to read that study. I wanted to ask Ms. Brown again about the Hufbauer study. Is this meant to be an inclusive or a comprehensive cost to the customer, that 55 average and 65? It didn't just include tariffs?

Ms. BROWN. No. The study refers to "special protection" which is defined as high tariffs, quota restraints, or other limitations beyond normal tariff or border restrictions. The study does not include Buy American laws, customs regulations or other nontariff barriers.

Mr. FRENZEL. So, it really is \$65 billion that is the tip of the iceberg? It doesn't have any in Minnesota?

Ms. BROWN. It is not done by States. The study covered 31 cases. There are probably a lot more than 31 cases that should have been included.

Mr. FRENZEL. Am I correct in guessing that textiles are about a third of that amount?

Ms. BROWN. I think you are. At least a third. Other studies place textiles at almost one-half.

Mr. FRENZEL. Somewhere in the middle twenties, or maybe even high twenties for textiles? For an industry that has a lower unemployment rate than in the northern half of America?

I thank you, Mr. Chairman.

Chairman GIBBONS. Thank you all.

This concludes our hearing for today. We will resume our hearings on Friday, February 20, at 9:30 in this room.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned to reconvene at 9:30 p.m., Friday, February 20, 1987.]

COMPREHENSIVE TRADE LEGISLATION

FRIDAY, FEBRUARY 20, 1987

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The subcommittee met, pursuant to call, at 9:30 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman GIBBONS. Good morning, ladies and gentlemen.

This is a meeting of the Ways and Means Committee, particularly the Subcommittee on Trade, to consider what type of legislation we will present to the Congress, and eventually to the President, in the area of trade.

This morning, we have with us Robert W. Galvin, who is the chairman of the Board of Motorola, a fine American company that does considerable business abroad. I have known Mr. Galvin for quite some time, and I know he is a very talented man and a very talented witness, and he is a man of great dedication, having come all the way from halfway around the world last night to be here in Washington with us this morning.

Mr. Galvin, we appreciate your presence. I want you to know, as I told you a little while ago, we are not going to be too tight on your time schedule. So you just go ahead and take over.

Mr. FRENZEL. Mr. Chairman, I would like to welcome Mr. Galvin, too, casting some question on his judgment about his willingness to come to Washington from Hawaii, but to remind the committee that Mr. Galvin has served on the commission appointed by the Congress for a couple of difficult years, and that service was extremely helpful to this House and to the Congress itself. And we are very grateful for it.

Thank you.

Chairman GIBBONS. Mr. Galvin, if you are yearning for the sun still, it is only about 1 hour and 35 minutes from here to Florida. We guarantee you sun somewhere in that 1,500-mile-long State.

Thank you.

STATEMENT OF ROBERT W. GALVIN, CHAIRMAN OF THE BOARD, MOTOROLA, INC.

Mr. GALVIN. Thank you for your cordial welcome.

I have submitted written testimony and will let that stand on the record. I would merely outline that the first section of that testimony deals with a series of themes. One has to do with the theme of neglect of this trade issue. A second is the theme of ideology, differ-

ent points of view that we have had in our great democracy on this issue. Third is pervasive change. And the final theme of the first half of my testimony was the issue of time, or timeliness.

I elect to summarize the second half of my testimony with this 5½- or 6-minute statement.

Your committee and the House of Representatives' quest to improve trade performance and competitiveness is bound to span many major issues, like the Federal deficit, currencies, education, et cetera. They are vital. But none, if acted on, will have notable effect on trade for years.

Timeliness is also essential to business success. Industry trade problems are immediate and particular. So, I focus now on the excess trade imbalance with Japan and others, due to inadequate real access to their markets.

Conventional wisdom has been that trade laws are adequate; reciprocity on access is protectionism. That wisdom has sustained. The trade deficit has soared. Reality may be changing. The administration may propose reciprocity in some cases of market access denial. The Speaker favors a similar theme.

Proposals are surfacing to strengthen our trade laws. I hope this may reflect a principle stated by Jean Kirkpatrick, who writes, "Shielding industries from competition is one thing. Insisting they be permitted to compete is another. The issue is gaining access." That is the critical issue with Japan, as an example.

My company is slowly gaining sales in Japan with some of the more open-minded there, but many steps require U.S. Government help to open the next market. Our few Government authorities can't be available to open every single door. It is no fun for them or us. It is uncompetitively costly.

Ironically, I believe that many Japanese leaders, who mistakenly view their market as more open than it is, mean for it to be more open. But here is the critical factor: leaders there collectively can't do anything significant about it. Their central organs of government cannot make grand decisions on issues, like access, and make them stick.

Many self-autonomous groups share power, endowed with discretionary rights of self-determination. Ministries, political factions, industry groups all have their individual positions. They don't wish their arenas' plans to be affected by too many accommodations to nontraditional associates. The result: an aggregation of protectionism.

Marry this with the appealing culture of avoiding serious conflict. The Japanese way is not to face an issue to the point of forcing others to subordinate their position to another. Conflict remains unresolved.

What is the relevance to our issue? No consequential change in the myriad of buying restraints will occur by our negotiation or persuasion; only vigorous pressure with very serious predictable consequences, if not heeded, can give the Japanese the justification to come together and implement access.

Some Japanese quietly welcome such pressure to ease the way. There is only one consequential pressure I know of: that proposed here last year. That plan provided for annual surplus reduction goals for countries deemed to have excess trade surpluses. The

President would be required to take action to redress goals not met with tariffs or other measures.

I know that suggestion does not satisfy today's conventional wisdom, but yesterday's conventional wisdom has not satisfied our trade deficit. That prior plan does not deserve the perjorative label, "protectionism." Its purpose is to open and free markets. It is the only tool that will work soon to leverage the others to open their markets. They will not want to suffer those tariffs, and need not.

Frankly, we don't want them to have to take effect. This prospective application is but a means to an end.

Let me conclude with the essential reason we must achieve this result promptly. American industry cannot compete—I repeat, American industry cannot compete—sufficiently unless it actually sells large volumes in Japan and other key markets as a competing, disciplining force there. Otherwise, their home market is a sanctuary while we have no, and ask no, sanctuary here.

If today's conditions persist for just a few years, Japan in particular will continue its unchallenged bid to systematically undermine western industries, as Peter Drucker puts it. He dubs this adversarial trade as distinct from competitive trade. That kind of trade aims at "winner take all," whereas, the western and American purpose is pursuit of access to all markets in a "win/win" environment.

Thank you for the privilege of making this statement, sir.

[The statement of Mr. Galvin follows:]

STATEMENT OF
ROBERT W. GALVIN
CHAIRMAN OF THE BOARD
MOTOROLA, INC.

It is a pleasure to appear today before the distinguished members of this Subcommittee. The leadership of the House and this Subcommittee demonstrates a strong sense of urgency and seriousness of purpose in examining problems of U.S. competitiveness and international trade and investment. The magnitude of our problems is not yet widely appreciated or understood, so these hearings should play a role in informing the American public and creating a consensus to implement the dramatic and far reaching changes that are required.

My intention is to place on the record certain themes that may provide a framework for your investigations and for designing an appropriate course of action. Certain, more particular suggestions are also offered.

The first of these themes is neglect. In the United States, we have simply not faced up to the long term erosion of our economic productivity and of many of our strategic industries. More recently, we have ignored the deleterious impact of immense federal budget and current account deficits and an overvalued dollar. The consequence of these many years of neglect is that the sacrifices required to correct these problems will be much greater than they might otherwise have been. Each year that we debate the issues and argue about what to do only raises the costs that must eventually be borne in our society. Each time we settle for the best we can achieve, given political realities, we only raise the ante. You can't play table stakes poker with only a few chips in front of you. And we are in a competitive poker game in which other countries are willing to put all their chips into the pot. In fact, the United States has as many chips as anyone else and could play the game much more successfully, if we had the will to do so.

My second theme is ideology. We live in a world of ideas and concepts. How often have we heard the phrase perception is reality. The phrase rings true if it determines the way people behave. Each of us can cite examples. But if perceptions become so far removed from reality that the discrepancies cannot be ignored, a crisis occurs and a new set of perceptions will inevitably take their place. In my opinion, the ideology which has determined U. S. perceptions and policies regarding international competition and trade has gotten so far from reality that it must be reconstituted and reinvigorated. We are competing in a world of nations with different ideologies -- from the state development economies of East Asia, to the mixed economies of Europe, to the centrally planned economies. Each of these other ideology practitioners is results oriented, restricting foreign access to their home markets while mobilizing national resources to accomplish national performance objectives in the others' markets. The United States is process oriented, believing that competitive processes always produce the best results. If other nations adhered to the same process

orientation, our ideology would be workable, but they do not. The consequence is that sooner or later at least some other nations find a way to achieve the results they want -- at our expense. With the growing interdependence of the U. S. economy with the rest of the world, we can no longer ignore the reality that differences in ideology are undermining the ability of our economy and society to maintain its security and its standard of living. We must create a framework that accepts these differences as reality and seeks to preserve our values within that context. If, in pursuing such a framework, we want other nations to behave differently, we will have to take decisive new action to cause their different behavior.

A third theme is pervasive change. After many years of neglect, because we were committed to an ideology inconsistent with world realities, we are in a position that will require pervasive changes. Numerous commissions, associations, committees, and academics have generated very long, detailed and remarkably consistent lists of changes needed to restore U. S. competitiveness and improve the international trading system. What is striking about these lists is their scope and the magnitude of changes proposed. Creating effective incentives for production and achieving more rapid productivity improvement while discouraging consumption will be a wrenching change. Balancing the budget without causing a serious recession is an incredibly difficult task. Eliminating the market distorting practices of other countries and renegotiating the international rules of the game is a formidable challenge. To accomplish such pervasive changes will require the next President to commit at least as high a priority and persistent an effort to restoring full U. S. competitive openings and competence as President Reagan has to rebuilding American defense capabilities and credibility. It will require a clearer determination and a much closer partnership between the President and the Congress.

The final theme is time. To adapt our ideology to world realities and implement the pervasive changes needed to overcome years of neglect will take time -- a long time. Even if the grand changes such as fiscal deficit reduction, currency revaluation, education and training enhancements, etc. could be legislated today, it would take years before the effects could filter through our economy and generate the desired results. In the interim, like the oil tanker trying to change direction, the momentum from years of neglect will further erode our ability to recover without likely dislocation in our economy such as further dollar valuation churning, higher interest rates, slowing economic growth and decline in our standard of living. It is a challenge to all of us to devise interim measures that can be taken to minimize such risks without diverting attention from the more fundamental changes that must be systematically implemented over the coming years. We need

to prioritize changes to achieve the greatest impact as soon as possible, rather than try to do everything at once.

In addition, we need to reorder our priorities for renegotiating the international rules of the game. Our priorities should focus on creating a framework that will permit the U.S. to co-exist with economies based on different ideologies. Instead of segmenting negotiations based on the fragmented bureaucracies that deal with monetary, fiscal, trade and other dimensions of our economy, we need an integrated approach that recognizes they are pieces of a larger puzzle. And the agenda should reflect as priorities the issues that matter most, not the ones on which we can most easily reach an agreement. To obtain meaningful negotiations on the most critical issues, we must first act in a manner that clearly defines and supports virtually each U. S. industry and service group's effective reciprocal access to each key market.

Many of us in the business community who are engaged in global competition have already had to face some hard realities and make dramatic changes in the way we manage our businesses. We now need the same level of effort from all parts of government if these adverse effects on the U.S. national interest are to be reversed.

In the foregoing statement, I have outlined several broad themes for your consideration which relate systematically to U. S. trade. Our competitive problems are so serious that nothing but a systems approach -- a comprehensive strategy on the fiscal deficit, currency stability, education, etc. -- will fundamentally reverse America's trade performance. Others will speak to these subjects usefully, I am sure. What I suggest is that none of these, even if enacted today, will have any tangible effect on trade for, at a minimum, five years. You must not be satisfied with that timing. Timeliness is essential to success in business and trade. As time passes with insufficient action, it becomes a question of survival to many.

Our trade problems are so varied that nothing less than a series of particular, interrelated solutions will resolve the critical needs of the U.S. manufacturing, agricultural, and service sectors. So I would like to focus on one such issue -- the need for timely action on excessive trade imbalances with Japan and other nations.

Years ago, when U. S. trade performance was not so seriously out of balance, and high technology trade even had a healthy surplus, some of us urged enactments of stronger, more effective provisions in our trade laws and the adoption of a principle of

reciprocity to assure access to other nations' markets similar to the access they enjoy in the U. S.

However, the conventional wisdom was: our trade laws were already good enough --- and reciprocity is a synonym for protectionism. The conventional wisdom was sustained. The trade deficit soared.

Time has passed. Too much time has passed. Greater appreciation of the reality is more evident. We are told that the Administration will soon propose for your consideration reciprocity provisions of some kind in cases where countries deny market access. The Speaker of the House favored a similar theme in his response to the State of the Union message. Various proposals are surfacing to strengthen our trade laws. Hopefully, what is ultimately enacted will reflect an acceptance of the principle enunciated by one of our more distinguished diplomats, Jeanne Kirkpatrick, who wrote recently, "Today's realities have escaped the old dichotomies of the free trade vs protectionism debate. Shielding industries from competition is one thing; insisting that they be permitted to compete is quite another. The issue today is less protecting American industries than gaining access to foreign markets." (emphasis added)

That has been, and is, the critical issue with Japan and some other nations. I suggest that it is as much in Japan's and other high surplus nations' long term interests, as it is ours, that this inherent condition be rectified now before the immoderate results of today convert to intolerable conditions tomorrow. History teaches that intolerable conditions inevitably lead to torturous reactions. None of us want these.

Frankly, my company is slowly gaining sales and investments in Japan with some of the more open-minded there, but many steps along the way have to be accompanied by a "firefighting act" by some U.S. Government authority to help open the next market. Few companies have the resources or the fortitude to make such effort. Our Government can only attend to a few such causes. It's no fun to do business that way and certainly is costly to us and to our customers. Frankly, again, I believe many Japanese leaders who mistakenly view their market as more open than it is also genuinely mean for it to be more open.

But, and here is THE critical factor: Leaders (collectively) there can't do anything significant about it because Japan is not a sovereign state that works like ours. Its central organs of government cannot effectively make certain grand decisions and make them stick -- not on issues such as access. Theirs

is a state with many semi-autonomous groups who share power - who are essentially endowed through practice, traditions and culture with their own discretionary rights of self determination. Some groups are governmental such as Ministries. Some are political factions such as farmers. Some are private such as Keiretsu and industries. Sometimes they cooperate. Sometimes they offset one another. They find their most common bond in their general agreement to develop the state.

Most of these semi-autonomous groups have their individual aggressive objectives and don't wish their plans affected by too many accommodations to non-traditional associates. The result: an aggregation of protectionism.

Marry this with the Japanese culture of avoiding serious conflict among groups. Even if one group wanted to change the country's policy, the Japanese way is not to face an issue to the point of forcing one group to subordinate their views to another. Such issues-in-conflict simply remain unresolved. Thus, in Japan no consequential changes in the myriad of buying restraints in virtually all groups have occurred, or will occur, as a result of actions you may take under the so-called systems approach to trade policy or any of the negotiation or persuasion efforts our country has tried to date. Nothing major on this subject can be achieved unless vigorous, consistent, consequential pressure from the outside is exerted. If actively applied, this pressure would be inimicable to their country and thus be justification for a consensus to implement access effectively and avoid the pressure. Incidentally, at times some Japanese quietly welcome such pressure as a valid excuse to ease the way to particular change.

I know of only one vigorous, consistent, consequential pressure that can be the convincing motivator to move the Japanese to solve their problem and ours, of access to Japan -- that is a plan such as proposed in last year's trade policy deliberations. That plan provided for annual surplus reduction goals for countries deemed to have excessive trade surpluses with the U.S. If the goals are not met, the President would be required to take necessary action to redress the imbalances, including imposing significant tariffs or other enforcement measures. I am informed that such an idea is supposed to be persona non grata at this time. The conventional wisdom opposes it. I suggest that just as the conventional wisdom of yesterday has been insufficiently supportive of trade, so it will be tomorrow. If we do not understand and respond effectively to the determinative factors, timely correction will not occur.

Reconsideration of that plan does not deserve the pejorative label - "protectionist." Its purpose is to open and free markets. It is the only tool that will do the job soon in Japan and elsewhere as it gives them the only persuasive reasons to effect a fundamental change. Leadership there will choose to buy more and thus sustain the process of selling openly, tariff free. They won't want those tariffs to take effect because they'll hurt. Frankly, we don't want them to have to take effect. Their prospective application is only a means to an end - to provide the Japanese and others a need for and justification for abandoning pervasive purchase restraints. With access actively implemented Americans would shift into gear and the excess bilateral trade balance would rapidly disappear.

Let me conclude with a statement of the primary reason why we must achieve this result promptly. American industry can not compete -- I repeat, American industry can not compete -- sufficiently unless it actually sells large volumes in Japan and the other key markets as a competing force there. Otherwise their home market is a sanctuary to home industry while we have no and ask no sanctuary here. If today's conditions continue for even just a few more years, Japan in particular will continue its unchallenged bid to systematically undermine Western industries, as Peter Drucker puts it. He dubs this "adversarial trade" as distinct from competitive trade. That kind of trade aims at winner-take-all whereas the Western and/or American purpose is vigorous pursuit of markets in a win/win environment.

Those of us who see this reality today want all our trading partners to prosper, but in a give and take mode, which achieves the condition where all of us can actually compete abroad as well as at home.

Chairman GIBBONS. Mr. Galvin, I want to commend you for that statement. I know that you know what you are talking about because I know you have been out in the real world competing for quite some time. And if my memory reflects correctly, you came to this position in a rather evolutionary manner over a long period of time after having dealt in the real world out there.

I think you accurately reflect my position, too, as to what I think the trouble is with Japan. I think America can sustain a favorable Japanese balance of trade in our market if they feel that they are being fairly competed with, and that there is equal access to the Japanese market for our products.

But I have talked to hundreds of Japanese leaders, industrial as well as political leaders, and I get the free trade line from them. But it is seemingly necessary to recognize what we are insisting on here.

But, you know, I have to say in 15 years I haven't seen any results. In fact, the results have been negative. I first started working closely in the Japanese area about 16 to 17 years ago, and I was hopeful from that conversation that the balances that we were beginning to suffer with Japan were just temporary, transitory, and as the Japanese market opened up, we would begin to see some American penetration of it. But nothing has opened the market.

I have got coal companies in my area that have had contracts with the Japanese for years on their coal, and we are practically giving away coal because of the value of the dollar. But I don't see the Japanese buying any more coal. They go someplace else to exploit another market instead of buying our coal. They have got silly restrictions on citrus products that my area produces in abundance, and extremely wealthy people, and able to import anything they really want—and they certainly want it, because they pay handsome prices for what they import.

It is estimated the Japanese import of citrus from Florida increases the price of citrus in Florida by about 25 percent. Yet, we are held under tight restrictions as to what we can sell them. They will not buy a finished product in fertilizer; they will not buy finished products in leather goods; they will not buy semifinished products in lumber or anything else. There is, in effect, still a very, very closed society or economy, as far as acceptance of other people's goods are concerned.

So I have to agree with you. We are going to have to be more forceful in our leadership with them, and I hate to do that. I know it always sounds like there is a little machoism or bullyism in it. I don't mean it that way. But I think much of America's trade problem, about 75 percent of it, is the problem with the Japanese. We have problems with other countries on this globe, but nothing like the problems we have with the Japanese.

So I agree with you. We are going to have to do more about it. And I think this law that we are working on here, we will get some of the rough edges off of it, and I think it will work.

I appreciate you coming here and giving us your views.

Mr. Frenzel—I am sorry I didn't give you the chance to respond there, but I didn't ask you a question. I am just agreeing with you.

Mr. FRENZEL. I will be glad to have him philosophize on my time, Mr. Chairman.

Mr. Galvin, your company has been very tenacious in the Japanese market, particularly with what was formerly the government telephone/telegraph monopoly, and now is allegedly a private company.

Is your level of participation in that market anywhere near what you think your product should earn on a competitive basis?

Mr. GALVIN. As I indicated in my testimony, sir, we are gradually finding our way into the Japanese market, and particularly with certain of those there who are more open-minded. One of those who has been openminded is Dr. Shinto, head of Nippon Telephone & Telegraph.

Incidentally, we only found that opening at about the time that he came into office, which was roughly 1980. Can you imagine? No telecommunications products were sold into Japan from the United States until 1980 when we opened that market, with the assistance of Bob Strauss, then the Trade Representative for our country.

Since Dr. Shinto has been the head of that company, and the fine management that is there, we have had an opportunity to do paging business, the beeper type of business. We were first given one-sixth of that business. Six companies were each given an equal share. We have been able to earn an additional share of that business. They have sliced the pie into seven parts and distributed the seven parts to six players, and we now have two-sevenths, or roughly 26 to 28 percent, of that business. So we are making progress in that specific arena.

But, if I may layer onto that class of question, our company has had two other offerings to bring to Japan in the same telecommunications arena. One is a competing service to the NTT paging business which we took to Japan and started last year, and were given some encouragement by their Ministry of Post & Telegraph.

But we became then the victim of another device by which we are held back from being a significant player in the marketplace. I called it the device of surrounding and choking off the foreign involvement.

Let me give you the example. We wanted, under the MOSS talks, arrangements where Americans could come in and offer telecommunications services in Japan, to enter the paging service business. As soon as we made that offering, others of the Japanese all decided that they would like to have a part of that business, too, and because the Japanese don't say no to each other, each of them were given a slice of the business. Our slice was finally carved down to 9 percent, and the Japanese retained 91 percent.

May I give you an analogy, sir, in medical terms? We all know that our bodies have an immune system, and if a foreign object enters our body, our resistance factors surround that and attempt to neutralize it, and hopefully eventually expectorate it from our body.

In Japan, essentially any time a foreign entity moves into a business, all the rest of the Japanese, in effect, come and surround it and ask for a part of the business, and the foreign offer is shaved down to a small part. We have just had it happen in the radio/telephone business. America has the best cellular radio/telephone system in the world. It has been adopted by the United Kingdom. It may be adopted by France. It has been adopted by Austria, by

Israel, by Hong Kong, by Mainland China, and the Japanese have a less adequate system.

So, finally, we were able to get their Minister of Post & Telegraph to at least accept our technical standards and said they would be willing to authorize it if people will come and apply to be common carriers.

A company emerged and offered to supply this service. As soon as they did, another set of companies, primarily dominated by Toyota, decided, well, why don't we go in for part of that, as well. The Japanese couldn't make a decision between the two, so they decided to divide the country in two. Well, when they got all through dividing the country in two, they gave us one-third of the country for one-half of the remaining channels.

We are relegated to, in effect, the potential for 13 percent of the business. The Japanese keep 87 percent for themselves. So they have a series of perfectly natural competitive strategies. They are quite legal and quite ethical. But none of them allow for the American and/or other foreign entities to really have a significant part of that marketplace.

Our country doesn't do that. We, in effect, say, look, if you can earn it, you can have 10, 20, 40, 60 percent of the market. The Japanese have that here in some products. But the orientation there is entirely to suppress the foreign involvement in their marketplace.

Mr. FRENZEL. Is your program in Japan profitable at the current level of business?

Mr. GALVIN. Our company is now making a profit in Japan. We had the kind of policy and strategy that has been urged from this chair that one must be industrial-oriented, patient to profit, do research and development, and cultivate the market. We have been at that actively now for more than a decade.

We tried to start in 1960, but we were told we couldn't come then. We tried to start in 1970, and Public Law 17 and Public Law 84 all said you can't come. Finally about 1976 or 1977 we just bullied our way in and with the help of Government authorities here, of both parties, we have now been able to euchre our position into one where we are rather begrudgingly accepted into the marketplace. We are going to stay with it. But incidentally, sir, very few companies in this country have the stomach for that.

It isn't a case where they have the capability. They just haven't got the ability to stand up to this kind of resistance.

Mr. FRENZEL. That is right. It takes a lot of time to work around those problems and even if the way were smooth, it takes a number of years to be profitable anyway.

Mr. GALVIN. That is correct.

Mr. FRENZEL. You are an important factor in the telecommunications business. The bill that the House passed last time, and presumably will be marking up this time, has a section dedicated to that industry. Is that section satisfactory to you?

Mr. GALVIN. I am sorry, sir, I don't know the details well enough. I will prepare a response to you and submit that to you.

[The information follows:]

**MOTOROLA INC.**

February 25, 1987

The Honorable Bill Frenzel
Member of Congress
1026 Longworth House Office Building
Washington, D.C. 20515

Dear Bill:

Bob Galvin asked me to respond to your question on Motorola's support for Title II, the telecommunications provisions of H.R. 3. Motorola enthusiastically endorses these provisions.

Motorola, Rockwell, IBM, GTE, AT&T, Digital, and other members of the Electronics Industries Association (EIA) worked closely with Congressman Bob Matsui and the Trade Subcommittee staff to draft these provisions. They are designed to provide American companies access to foreign markets through negotiation.

If countries fail to negotiate or violate agreements, the President is required to act against such countries. This requirement is essential to make it clear to our trading partners that trade which is truly free is grounded on the principle of fairness. The threat of trade legislation with viable sanctions forced the Japanese to the bargaining table for the MOSS agreement on telecommunications equipment and the semiconductor agreement. Unless viable sanctions are available, the above agreements will have no significant impact on market access for competitive U.S. companies.

In our view, the records of past Administrations in the trade area clearly indicate the need for mandatory sanctions.

If I may provide any additional information, please call on me.

Sincerely,

Bruce C. Ladd, Jr.
Director, Legislative Affairs

Mr. FRENZEL. Thank you very much, Mr. Galvin. I yield back.
Chairman GIBBONS. Mr. Pease?

Mr. PEASE. Thank you very much, Mr. Chairman. Thank you, Mr. Galvin, for your testimony. I am sorry I wasn't here to listen to you in person, but I have had a chance to look over your testimony. I want to, first of all, thank you for the fact that your company sticks at it, really tries to get into the Japanese market, and secondly, I want to thank you for sticking with this committee.

You have been a resource to us over a period of time now, and I think it is very helpful to us to have your perspective. I was particularly interested in your testimony. I think it is testimony that this committee needs to pay some attention to. Their continues to be the feeling, the myth, I would say, that the Japanese market eventually will open, and if we just keep trying, everything will work out, and what you tell us is that is not going to happen in the absence of what you call vigorous, consistent, consequential pressure, and it is that sort of pressure which this committee sought to apply last year in H.R. 4800 and again this year in H.R. 3.

We have taken our lumps. We did take our lumps last year for the so-called Gephardt amendment, which is sort of results oriented. It says we don't care how you reduce your trade deficit, but you have to do it. I may have missed in your testimony any comments you had about approach that was followed last year in the Gephardt amendment.

Could you comment on that approach for me?

Mr. GALVIN. Yes. I did say in my earlier testimony that. I specifically recommend that that be a part of your legislation at this time. I think it is the only device that I know of or that I have heard of that has the opportunity of providing the kind of pressure that the Japanese require to justify their coming together and saying—now I guess we must unify and agree that we must open.

May I give you just an anecdote? I spent 10 days in Japan in October attempting to convince the Ministry of Post and Telegraph and MITI that they should approve the American cellular telephone system. Japan total area coverage is Japan's TAC system. They in effect said to me—and I am talking about senior ministers—said to me my ministry feels this way. That ministry feels that way. We cannot, between us, make the other change their position. We don't want to make the other change their position. It is not our way.

If you can go back and get the senior official, whoever that may be, of the United States to in effect tell us we have got to do that in order to get along with the United States, we can use that as our excuse that now we must agree with your system.

Japanese political and governmental officials tell us that. Businessmen tell us that. They say give us an order that we have got to do this. Then we can agree. But we cannot, in our society, allow one to be submerged to the other, and this is something if one does not appreciate the Japanese way, the Japanese culture—and it is a beautiful culture. It is a wonderful culture, and it is a very civilized culture. But the point is, nothing can get done because I am going to keep mine; you are going to keep yours, and we never get an opening.

Mr. PEASE. That is fascinating, and a good insight. A couple of years ago when we were in Japan, we talked with members of the American Chamber of Commerce in Japan, and I had the impression after that discussion that there were a number of American business people doing business in Japan who were quite satisfied with the way the Japanese were operating, and were not pushing as hard as you have been pushing to open up the markets.

Your comments this morning in response to Mr. Frenzel's questions led me to believe that these companies may have gotten their little share of the market and may be happy with that share, and therefore, are not pushing hard to open up other markets.

Is that a fair characterization?

Mr. GALVIN. It is a fair characterization, sir. Obviously, if you put yourself in the shoes of the businessman who is about to get an \$11 million order, he does not wish to offend the potential customer, and will seek to get what he can get. But the statistics are pretty obvious, and I won't regale you with them, but the manufacturing differentiation in high technology is like 6 to 1 now in favor of the Japanese.

We know the \$60 billion trade deficit all together, 20 billion in high tech alone, and what we have is a few people who are enjoying a little bit of business. Ironically, I suppose, our company should be one of them. We are doing in the hundreds of millions of dollars worth of business in Japan. We should be doing in the billions, sir.

If I may ride on the coattail of your statement, one of the things that is frequently heard down here in Washington is,

Well, why worry about the problem, because if the market really was totally open, all we would get is another \$5 or \$6 billion dollars, and the differentiation is \$60 billion.

It is this kind of noise, to which I respond in two ways: one, let's at least get the \$5 or \$6 billion. But—and I used this exercise when I met with a group of businessmen in Hawaii on Monday. I said regarding that issue,

By the end of this week I can make about 20 telephone calls and find 10 companies in the United States who would sign up along with ourselves for a billion dollars of that difference. Our company can do another billion dollars worth of business in Japan if the market is open on top of what we are doing. I can find 9 others between now and the end of this week, the end of next week, to sign up for 10. If I can do that with 10 companies, I can assure you there is another 150 or 200 out there that would take another 10 or 15.

The American Industrial System can serve the Japanese marketplace as soon as it has some reasonable confidence that it will be accepted as a large supplier in that marketplace.

Mr. PEASE. Thank you very much.

Chairman GIBBONS. Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman. Thank you, Mr. Galvin, for your testimony. I appreciate the fact that you came here to testify.

You indicated in your testimony that your company decided to hang in there until you get into the Japanese market and it becomes a profitable process for you. I wonder about your company's financial commitment to that effort.

Is it pretty much along the line you expected when you went into the market; that you would have to spend that much. And the timetable, is the timetable as much as your entry into other markets around the world, aside from the Japanese market?

Mr. GALVIN. The financial and timely source commitments are very substantial. I am going to use a terribly elementary and not precisely accurate numerical tool to answer. Rather typically in industrial businesses, it takes about a dollar of investment to do about a dollar of sales. If I am off a little, it doesn't make any significant difference. There is no free lunch in investing for any business, so every \$100 million worth of business we do in Japan, you can anticipate we have applied about 4 times 100 million of assets to accomplish that, in factories, people investments, training, inventories, et cetera. So it is a very extensive, but nevertheless a very worthwhile investment to make, and may I emphasize in context of that, sir, something that hopefully would be and must be appreciated by the political leadership here.

American strategy in industry requires that we be successful in the Japanese, European, and American marketplace. You can't forsake any one of these, because if you do, the other fellow operating from his sanctuary can gradually eat away at your apparent strength in your home market. And any company that can avoid making the investment in time and monetary investment and forsake the Japanese marketplace, will some day be chewed up because the Japanese will apply their resources to every one of those businesses.

Ours is at least a defensive, as well as, an offensive strategy, and I believe that you would find that any scholar in business will acknowledge you have got to be there if you intend to stay here and be successful.

Mr. COYNE. Well, I had a businessman last week tell me his company had spent \$60 million to open up that market and become familiar with it, and to finally crack the market and do very well there, and he said that was pretty much what is company felt would be required to do that. So your investment of your company is pretty much what you expect it to—

Mr. GALVIN. Very high. We are glad to make it.

Mr. COYNE. What about the U.S. agencies in your dealing in foreign markets? Do you find it cumbersome to get through the maze of bureaucracies in this country to be able to trade in Japan? Is that a problem for your company?

Mr. GALVIN. I don't know that I precisely understand your question, sir.

Mr. COYNE. Well, in getting the necessary permits and the—

Mr. GALVIN. Exporting products and so on?

Mr. COYNE. Right.

Mr. GALVIN. Yes. We do hope that the apparent orientation to challenge the highly restraining rules of export will be moderated, will be permanently moderated. The export regulations have seriously impacted our sales elsewhere in the world, not particularly to Japan, but everywhere in the world we have been impacted and we think that those regulations should be moderated.

Mr. GALVIN. Thank you.

Mr. LEVIN. Let me ask you to comment on lines of attack we have heard on this issue of opening up markets and on the provision for some required action if deficits don't diminish. You have already commented on one. We have heard from the chamber of commerce, among others, that closed market account for only \$10 or \$20 billion of \$160 billion, so at best, opening up markets will get at 10, 15 percent of the problem. You have already commented on that. So let me ask you to comment on three additional lines of attack on this critical issue.

The next one we heard from a variety of sources. The American Business Conference quoted in its book the Secretary of Commerce, who said the Japanese beat us because of more aggressive management, and then said at the end,

There is no one to blame but American management, not labor, not the Government, but management.

That is the second one. The next line of attack we have heard was embodied in the Secretary of the Treasury's testimony. He said we need to keep in mind that for the most part our trade laws have proven to be effective instruments for opening up foreign markets and for defending Americans against unfair trading practices on the part of our trading partners.

There are a few exceptions to that rule, but not many, he said. That was repeated by the Secretary yesterday before the Senate Finance Committee and what flows from that is amending sections 301 and 201, and no more. That has been a fervent line from several sources, including the Secretary.

Then the last one is, don't tie the President's hands. The President said this yesterday. We are reminded in our discussions that the President's hands you will be tying will not only be this President's, but the next one's. And they look at Mr. Gibbons and Mr. Pease and Mr. Coyne and the rest of the Members and myself and say that he may well be a Democrat.

So if you could, comment on those three other critiques of the Gephardt amendment to the provision in last year's bill and this year's.

Mr. GALVIN. Thank you. There is no question, but what American management could have done a more aggressive job in a variety of its responsibilities over the last 15 or 20 years. I, incidentally, pay high credit for the fact the Japanese in that interim period of time have done a very fine job of operating their businesses. I believe, sir, there have been a fair number of us who have worked assiduously to try to be the best we could conceivably be, and there are a large number of such companies out there that I think representatively do a very fine job of serving the Japanese marketplace and quite a few of them are my competitors in the United States.

I pay them high credit for being very hard workers, very forward looking, et cetera. I respectfully suggest that a very big part of our problem in terms of the zest for being competent in providing leadership of our businesses in foreign trade is a function of the confidence of what can be accomplished in particular markets.

Please note that wherever we saw a proposal, we have managed very well to do foreign trade in Europe, elsewhere in the world, where our shares of markets are very high against the Japanese

and against the native operators of those respective arenas of the world, and that what has happened over the period from 1960 to 1980 is that we have been so totally frustrated in terms of our ability to compete in Japan that there was no confidence in applying the investments in that marketplace because one expected to be thoroughly thwarted in that situation.

But nevertheless, American industry would have done a better job, and so be it. I think today you are finding a very new mode. Whatever restructuring, whatever attention to details, quality, et cetera, have been very much on the upbeat the last 6 to 8 years in the United States.

American management is quite capable of competing. With regard to the second point, sir, I may not have understood the thrust of it, but—

Mr. LEVIN. Just amend the trade laws, 201, 301, and leave it at that?

Mr. GALVIN. That would be insufficient in my estimation because this tool has not been effective in my administration the last 10 years, 15 years. Fine tuning it will not be a sufficiently strengthening situation. And, very frankly, it ties in with item No. 3, the tying of the hands of the President. I think that this is a country governed by law, not by people. I think it should apply to the President of the United States on matters of very critical policy. He certainly obeys many laws in this country. All of our Presidents have been very forthright in that regard.

When we have a situation that is as critical as this one is, sir, I think it is so critical if we don't resolve the matter in the next 6 to 8 years, therefore in the next administration's term, we are dearly at risk of ending up with an engine that will be incapable of being incrementally successful enough to continue the viability of the wealth-creating atmosphere of our society. We are the wealth-creating entities of this society; business is, industry is very much at the heart of that.

Weakening that sufficiently, we are always dealing at the margin. Incrementally we will not have the ability to afford all the things this society wants, and we are already becoming a debtor nation. We have all the problems you have articulated in this committee better than I can. These things are now right on the threshold of having a tremendous impact on the ability to govern this society.

And let me use a word that I used with the Senate about 2 weeks ago that I think is one that at some point in the leadership period of governance down here, we are going to conceivably be looking at. I think we are looking down the throat of a phenomenon of receivership. I don't mean that in the same sense that the local coal mine in the South may have to face receivership, but receivership means when you get to a point where others on the outside have so much influence on whether you can or cannot use your resources one way or the other, you don't have your freedom to do everything we can. This Congress can be impaired, this country can be impaired, our country can be impaired if we don't provide now the roadway where American industry can compete. We must compete successfully in Japan to compete successfully in the United States.

So I think that policy, and policy is nothing more than an answer to a predetermined set of conditions, that policy must be looked upon, planned for its implementation, and we must know predictably there will be consequences when that policy is violated.

Mr. LEVIN. Thank you.

Chairman GIBBONS. Thank you. Mr. Archer.

Mr. ARCHER. No questions.

Chairman GIBBONS. We appreciate again the measure of your wisdom and the fact you have been so willing to come here and help us with these problems and to help us from a realistic basis. I have followed your attempts to get into Japan very closely, and I know that you know what you are talking about.

As I say, my pocket pager works perfect. I know you build a good product. I have dropped it, and I have lost it, I have done everything you can think of, and the thing still comes on and it still works. I have been caught at the White House with it going off in the Oval Office, and I have been caught out in Bethesda taking a physical exam and have the thing go off. I know it has range and power. So no Japanese can tell me they have a finer product.

I appreciate what you are doing. We also appreciate your stamina in getting here all the way from Hawaii for this appearance this morning. Thank you very much.

We next have a panel of the American Electronics Association, the Semiconductor Association, and Micron Technology, Inc. As this panel comes forward, I would like to welcome our colleague from Idaho, Richard Stallings, who has come to be with us this morning and listen to part of the testimony. Since he has a constituent that will be appearing on this panel, I would ask him to introduce his constituent.

**STATEMENT OF HON. RICHARD H. STALLINGS, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF IDAHO**

Mr. STALLINGS. Thank you.

I appreciate the opportunity to be here. I think it is a real opportunity for us to hear from people of this caliber. In the American tradition of entrepreneurial initiative, we have a young company in Boise, ID, Micron Technology, Inc., that has grown out of the sagebrush into a major international competitor. At other times this company would be a world leader. Today, however, given the unfair competition of the Japanese, and at this point Korean traders, this company is barely surviving.

I think in the tradition of other inventors, Henry Ford and some of the other people that have built ideas into great financial empires, Micron Technology was on the right track and doing very well until it was hit with the unlevel playing field of international trade. So Joe Parkinson comes to us today to tell us the story that we and many American consumers are unaware of. I think it is vital we pay close attention to this testimony.

Unless something is done at our level, people like Mr. Parkinson will not be in business, and that entrepreneurial enterprise we so highly prize in this nation will be a thing of the past. I am proud of Mr. Parkinson, his accomplishments and appreciate his testimony today.

Chairman GIBBONS. Go right ahead.

**STATEMENT OF JOE PARKINSON, CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER, MICRON TECHNOLOGY, INC.**

Mr. PARKINSON. I appreciate very much the opportunity to present our industry and problems we encounter vis-a-vis some of the foreign competitors, particularly the Japanese. Micron is a semiconductor manufacturer located in Boise. Originally we were primarily a design house and subsequently began manufacturing of semiconductors in 1981.

At our facility in Boise, we do everything, including the design, manufacture and marketing of our dynamic random access memories. Unlike any other competitor in this business in the United States, I think we are the only one doing all phases of the manufacturing exclusively in the United States. We employ 1,300 people and manufacture both 64K and 256K DRAM's. We are producing prototypes for 1 megabit DRAM's. This product is forecasted to be somewhere between a \$5 and \$10 billion market by the end of the decade and is the largest volume produced semiconductor in the world. It is a very important market that we are talking about, and important not only from a business standpoint but also from a defense and strategic standpoint. If you don't have large volumes of DRAM's, you don't have computers.

Perhaps the most important thing I can tell you today is that we are still here. Despite severe price cutting by Japanese, Micron is still in business in manufacturing DRAMs in the United States. In our 1984 fiscal year, we earned \$29 million on \$87 million in sales. In 1985 we broke even on \$75 million in sales, and we lost \$34 million last year and \$48 million in sales.

This record reflects the effect of foreign targeting and dumping by Japanese and Korean manufacturers. One month in the fall of 1984, we could get \$3 for a 64K DRAM. That is one semiconductor chip. A year later, the price was under \$1, and some of the products sold for under 50 cents apiece. You can imagine trying to do business when the price suddenly drops 75 percent for virtually your entire line.

The trade agreement currently fixes pricing on the next generation of product at about \$3 as an average for all the Japanese producers. The lowest would be \$2.50. Despite the fact the Japanese control over 85 percent of the market, the worldwide price is well under \$2, which would reflect the extent of violations of this trade agreement. We have seen the Japanese ignore it, not honor the agreement, and as a result it has not helped the situation.

Further, the yen has depreciated from an exchange ratio of 260 to 153. That means that the Japanese have additionally absorbed about a 40 percent additional drop in revenue which should be cost to them, in order to maintain extremely low and aggressive pricing in this all-important DRAM market. Their obsession with market share is at any cost.

Other members of the U.S. industry have not been able to survive. I heard Mr. Galvin's testimony on the need to remain tenacious and consistent and committed to a market, but even Motorola

has dropped out of the DRAM market, at least with its own DRAM fabrication.

Additionally, Mostek, which was the leading producer over the last 10 years, has discontinued DRAM production, closed down its facilities and sold to a French concern. It was part of a huge conglomerate, United Technologies, and should have the resources to continue in this important market. At about the same time, Intel and National Semiconductor withdrew from the DRAM market, and Texas Instruments shifted virtually all of its production of DRAM's to Japan. Today it has a fabrication facility that is reopening in Texas. So there is some continued production by TI in the United States.

I think the most ominous trend is that we see some of these American companies trying to get back into this all-important DRAM market, such as Motorola, by assembling a Japanese DRAM chip. This means that the high tech end of it, the design and manufacturing of the chip is done in Japan, whereas the low technology end of it, the assembly end of it, is done in the United States. The only explanation I can really see is that this thereby opens up Motorola as all-important distribution and marketing outlets to the Japanese which would allow them further to penetrate and to enlarge American dependence on this product. I know of two other companies attempting to achieve the same arrangement so they will be able to offer a DRAM product, even though it is made in Japan.

The problems experienced by American DRAM manufacturers are not accidental. In the mid 1970's the Japanese Government decided that computers and information services were the kind of high value-added industries that Japan wanted to dominate and that the entry into the industry would be through volume production of semiconductors and other components. Joint research and development projects were set up among the major manufacturers. Low or no interest loans and export assistance were provided.

This is also happening in Korea. The important thing is not the low interest rate; rather the important thing is to be able to get money, period. You need money to build fabrication facilities, and you also have to know that you have the money to withstand operating losses long term in this market. That is where these foreign companies are at tremendous advantage over we in the United States. Your sources of capital on Wall Street or banks dries up, and they know they have you. You are out.

Through price cutting, excess construction of capacity, overproduction and sales below costs, the Japanese manufacturers now control over 85 percent of this market. Now, part of their thrust is not just to price low, and this is what I want to emphasize, people look at the short-term symptom, low pricing. The long-term problem is that they build overwhelming capacity, and if you are in American industry, you look "dumber than a post" to be competing with these foreign competitors who are building this enormous capacity. Why should you add capacity here in the United States when they are running at 50 or 60 percent of capacity in Japan?

So as a result, if that capacity is being used in their market, you get out of that market as Motorola, National, Intel, AMD, Mostek have all done. The result is they own that market and move on to

the next one. That is what has happened in semiconductor after semiconductor and will continue to occur if we don't do something about it.

We filed a dumping action on the 64K DRAM, which was the first dumping action that had been filed. We prevailed at every course of the proceedings, and we proved the Japanese were selling well under cost; we are talking over 50 percent in some cases. The evidence was so compelling that the President self initiated the subsequent 256K and greater density DRAM dumping action, and that eventually led to the United States-Japanese trade agreement.

We won the dumping case, we got the self-initiated action by the President, we got the trade agreement, but unfortunately nothing has changed. The pricing is still just as detrimental as it was previously. You have to do something along the lines of what Representative Gephardt has proposed, put the ball in their court.

We can't continually swat back. Our agencies don't have the time. They get tired of hearing me call. I hate to complain. They get tired of having to deal with each one of these separate industries. You have to put the responsibility on the Japanese to figure how to solve this trade imbalance problem, or it will continue forever.

I have several suggestions. First, I think, most importantly, I want to commend the efforts by the administration, and I mean the people in Commerce, Secretary Baldrige, Under Secretary Bruce Smart, the USTR, Clayton Yeutter and Michael Smith. They have done the best they can. And I am convinced that if these able people can't succeed, it can't be done without stronger responses.

The ITC has also collected data for 10 or 15 years, and they witnessed this transition to overwhelming dominance by the Japanese. I think the ITC has the knowledge, and you should retain them, to show the detrimental impact on U.S. business that will develop long term if the Japanese own these DRAM and high-volume semiconductor markets.

I think there should be an examination of the wisdom of letting Fujitsu take over Fairchild. I say this not just from the standpoint of the technology but from the marketing outlets. That is the thing that is overlooked. For Toshiba to be able to sell DRAM's through Motorola, or for Fujitsu to gain access to Fairchild's marketing distribution, is an awesome development long term, because many of these distributors will not currently allow a sharing of the shelf with Japanese manufacturers. The Toshiba-Motorola and Fujitsu-Fairchild arrangements are largely market oriented and will lead to increased dominance by Japanese producers and dependence by American companies.

Second, we have to enforce the trade agreement. There is no remedy in it which I think is good. We let these Japanese know they entered into this agreement, they are not honoring it, and now here is the remedy. We can't slap their hand any more. You have to cut that hand off so they remember. If they violate an agreement or dump in our markets, something horrible happens, and that horrible thing should be a tariff on all Japanese electronic products (including DRAMs)—until this agreement is honored. You can't reinstitute dumping actions here in the United States because it will affect pricing here. The intent of that agreement was great.

Let's make sure there is a minimum price based on the cost of individual companies. That way our customers won't go abroad to buy their components. I think the agreement should be enforced, and we should lay down a severe penalty for breaches that have occurred in the past.

Third, there should be reparations for those of us who have remained in this market. We have lost, as I indicated, about \$34 million last year. That has weakened our competitive position. How can we continue to invest the R&D, how can we continue to build state-of-the-art plants, when they are causing us to lose this \$34 million by dumping in our markets? I suggest part of that tariff should be distributed to the American companies who have continued to compete in this all-important market. I would include Texas Instruments and the others who have hung in there.

Fourth, we need to focus on diversionary and downstream dumping of products, and by that I mean—and your bill does address that somewhat, but it takes time—you require a new dumping action, and I am telling you time is money and meanwhile many companies, as I have indicated, go out of business during that time. There needs to be an automatic application of the dumping laws to any product incorporating these products without reinstitution of additional dumping actions. I would commend that as a possible solution through minor amendment to your bill.

Fifth, there should be private remedies for dumping. Your agencies can't be bogged down by us continually coming to you. I think the Gephardt bill, by laying the ball in their court and giving the private remedy for dumping, would cure it much quicker than these prolonged administrative actions we have been facing.

Sixth, as Mr. Galvin indicated too, I want to emphasize the need for lifting these export restraints we face. Every time we sell a DRAM, we have to get an export license. It is not even per customer, it is per transaction. You can't do business abroad on that basis because this is a fast moving market and if you have to get a license, which takes a minimum of 2 or 3 weeks, you have usually lost the transaction.

Seventh, I think there should be a habitual offender clause, and that would be for the company. It is the same companies dumping in every market. Over and over again, we see the same people. It seems to me, after you prove them dumping two or three times, there should be some penalty across the board for their products. I would suggest a tariff too on DRAMs. Because of the clear, unequivocal targeting and prolonged dumping, we should set a tariff for a prolonged period of 25 cents on 64K DRAMs, \$1 on 256K DRAMs, \$4 on one megs. It should be there for a prolonged period until we get the American DRAM industry back on its feet.

I am not apologizing for American industry. I feel that we work hard, we pay a decent wage, and we hire domestically. I guess you can move your production abroad, and I think that is just fatal to American industry. You also could lower your standard of living here, and I don't think that is in our interest either. But if we continue to allow everybody else to take home a piece of America

without giving us anything in return, there is not going to be much left for those of us who live with this. This is a critical issue, and I urge your immediate attention to it.

Chairman GIBBONS. Thank you for your very fine testimony.

[The statement of Joe Parkinson follows:]

STATEMENT OF JOE PARKINSON, CHAIRMAN AND CEO OF MICRON TECHNOLOGY, INC. BEFORE THE SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON WAYS AND MEANS OF THE HOUSE OF REPRESENTATIVES

Good Morning. Thank you, Mr. Chairman. My name is Joe Parkinson. I am chairman and chief executive officer of Micron Technology, Inc. I would like to thank you, Mr. Chairman, and the Committee very much for giving me the opportunity to appear before the Committee today.

Micron Technology, Inc. is a semiconductor manufacturer located in Boise, Idaho. Originally founded as a consulting company in 1978, the company subsequently changed its emphasis and began manufacture of semiconductors in 1981. At our facility in Boise the company designs, manufactures and markets dynamic random access memory components, known as DRAMs, one of the most widely used semiconductor components in computer systems. The plant in Boise includes design, wafer fabrication, test, and assembly facilities, making our company the only American owned company manufacturing DRAMs which has its entire production process onshore. We currently employ approximately 1300 people, manufacturing both 64K and 256K DRAMs. We are also producing prototypes of our 1 Megabit DRAM, the latest generation of memory product. Micron is a merchant manufacturer which means we sell our product largely in the open market rather than produce it for our own use.

Perhaps the most important thing I can tell you today is that we are still here. Despite severe price cutting and overproduction of DRAMs by Japanese, and now Korean, manufacturers, Micron is still in business and manufacturing DRAMs in the United States. In our 1984 fiscal year, we earned \$29 million on \$87 million in sales, 1985 was breakeven on \$75 million in sales and we lost \$34 million on \$48 million in sales in 1986. This record reflects the effect of foreign targeting and dumping by Japanese and Korean manufacturers. One month in the fall of 1984, we could get \$3.00 per 64K DRAM. A year later, the price was under \$1.00 and some of the product sold for under \$.50. Despite the "fair market values" (cost plus 8%) under the U.S. Trade Agreement averaging over \$3.00 for Japanese producers, the average price has actually remained around \$2.00, thus reflecting pressure from continued widespread dumping of Japanese production which now accounts for over 85% of the product on the open market. Further, the yen has appreciated from \$260 to \$153 against the dollar and the Japanese manufacturers have not raised prices. Their obsession with market share is at any cost.

Other members of the U. S. industry have not been able to survive. In 1985, Mostek Corporation, once an industry leader in DRAM production, was closed down and sold. At about the same time, Motorola, Intel Corporation and National Semiconductor withdrew from the DRAM market. Recently, Motorola started what may be a new trend by making an agreement with a Japanese company to assemble its DRAM chips.

The problems experienced by American DRAM manufacturers are not accidental. In the mid-1970s the Japanese government decided that computers and information services were the kind of high value-added industries that Japan wanted to dominate and that the entry into the industry would be through volume production of semiconductors and other components. Joint research and development projects were set up among the major manufacturers. Low or no interest loans and export assistance were provided. In the late 1970s Japanese manufacturers held about 40% of the worldwide DRAM market. By the early 1980s, in the changeover from 16K to 64K DRAMs, these same manufacturers increased their market share to as much as 70% of the market. Through continued price cutting, excess construction of capacity, overproduction, and sales below cost, Japanese

manufacturers now control 85 to 90% of the world DRAM market. The Korean government and Korea's largest companies are now trying to emulate the Japanese and have embarked on a similar program.

In June 1985, because of persistent sales of 64K DRAMS by the Japanese below cost, Micron Technology filed its semiconductor antidumping case with the International Trade Commission and the Department of Commerce. Although there were many skeptics at the time, the case has now run its course, we have prevailed at every stage of the proceedings, and an antidumping order is now in effect. After we commenced our petition, the President's Task Force on Trade became involved, and as a result, the Commerce Department self-initiated an antidumping petition concerning 256K and above DRAMS from Japan. That case, together with a companion case concerning EPROMs, is currently under a suspension agreement as a result of the U. S.- Japan Semiconductor Trade Agreement.

Despite the dumping cases, the Trade Agreement, and a tremendous effort by excellent people like Secretary Malcolm Baldrige, Bruce Smart and Gil Kaplan of the Commerce Department and Ambassador Clayton Yeutter and Michael Smith of the Office of the United States Trade Representative, the Japanese manufacturers are not honoring the Trade Agreement as they continue to overproduce and sell below cost. Under the circumstances, there would seem to be little doubt that there needs to be some changes. We recommend the following:

1. Enforce the trade agreement. As J. R. Simplot frequently says, why did we make the Trade Agreement if we weren't going to enforce it? I know Ambassador Yeutter and the people in Commerce believed in good faith that it would be honored. The Japanese lobby and talk in moderate and reassuring tones, but the fact is they have violated it since day one and continue to violate it. We all know that. Let's call it like it is: tell the Japanese they violated the Agreement and stop giving them additional time to comply.

2. Penalize the Japanese for past violations. The Trade Agreement does not specify a particular remedy. I think that is good because it allows us the flexibility to determine what to do when someone misleads and double-crosses us. To have to reinstate the dumping actions defeats the purpose of the Trade Agreement in addressing world-wide pricing. Of course, you must address world pricing if you are going to keep American businesses from taking their jobs and procurement out of the U.S. Accordingly, a tariff of 25% on all Japanese products imported into the United States should be imposed for one year, with review then to see if the Japanese are honoring the Trade Agreement as a precondition to lifting the tariff.

3. Reparations for U.S. semiconductor companies. Those of us who remained in the DRAM battle producing here in the U.S. should be compensated from the tariff collected for our lost profits as well as our actual losses. That will restore our companies by giving us the capital we need for state-of-the-art manufacturing facilities and research and development of new products needed for competitiveness long-term. A condition of receipt is that the money be expended only for such purposes in the U.S.

4. Diversionsary dumping and downstream products. The current draft of the legislation includes provisions concerning "diversionary" dumping and "downstream" products. These provisions are included in the statute to address the problem of circumvention of an antidumping duty order by either including the dumped product as a component in something else, the "downstream" product, or by dumping the product in a third country where it can be purchased and incorporated into something else by the customer. While we do

believe the provisions as proposed are better than not addressing the problem at all, we would like to see a more direct approach to the problem.

Let me give you an example of the problem and the way it is addressed under current law, under the draft of the statute, and under our proposal. 64K DRAMs are currently subject to an antidumping duty order. The problem is that a manufacturer of DRAMs can, instead of selling DRAMs, install them in a printed circuit board, a downstream product. Also, the manufacturer can, instead of dumping the DRAMs in the United States, divert the product to Hong Kong where a board manufacturer includes it as a component in his product. This would be diversionary dumping. Under current law, no duty is collected under either circumstance. In effect, the company guilty of dumping can successfully avoid any penalty for having done so by simply selling them in another country or including them as a component in something else. This is one of the most serious deficiencies in our current statute.

Under the current draft of the statute, the situation is not much improved. With regard to downstream products, the draft provides for the monitoring of import levels of the downstream product so that an antidumping petition might be filed if there is a significant increase in imports of the downstream product. With respect to diversionary dumping, it provides for the assessment of an additional margin by which the end product has benefited from inclusion of the dumped product as a component. In the context of our example, this would mean that the ITC could monitor imports of printed circuit boards in order to determine if imports increased significantly as a result of use of the dumped DRAMs. If the imports did increase, then the Commerce Department could, but is not required to, initiate an antidumping proceeding with regard to the boards. If an antidumping investigation into printed circuit boards is initiated, then the Commerce Department could assess an additional amount in that investigation based on the "benefit" the boards are getting from the dumped DRAMs.

The problem with such provisions is that the original dumping duties are not collected unless a new antidumping action is started on the downstream product or the product into which the DRAM has been diverted. As under current law, there is no penalty to the guilty manufacturer for diverted or downstream use unless an entirely new proceeding is commenced and completed. Because of the time, effort and expense involved in getting through any antidumping proceeding, we believe foreign manufacturers have little to fear from either the current statute or the new draft if our industries have to go through two cases instead of one in order to effectively prevent dumping.

What is really needed in the statute is a provision which collects the duty on the dumped product regardless of whether it is imported in its original state, transformed into something else, or used as a component. Such a provision would collect the antidumping penalty on DRAMs whether they are imported as DRAMs, as components in printed circuit boards, or as components in computers. Such a provision eliminates the benefit to the guilty party in either diversionary dumping or use of the dumped product in downstream products. It also eliminates the need to go through an additional proceeding in order to address such issues. Anything short of such a direct provision simply gives the guilty party more opportunity to exploit our system.

5. Private remedy for dumping. The current draft of the legislation provides for a much needed private remedy for dumping. The problem with the current draft is that no private action can be started until normal antidumping proceedings are complete, including all appeals. By limiting action until appeals have been completed,

there will be an inordinate amount of time between the injury and the recovery. In addition, it would appear that if a suspension agreement is entered into there would be no private right to sue because the statute appears to require the entry of an antidumping order before suit can be brought. We believe a better provision would be to allow a petitioner to initiate a private right of action for damages as an alternative to antidumping duty proceedings. At the very least, we believe that if an antidumping duty order has been issued in antidumping proceedings, a member of the affected industry ought to be allowed to collect treble damages for losses suffered as a result of the dumping. This would help defer future dumping in other product segments.

6. Habitual Offender. Another provision which should be included in this statute but is not is what we call a "habitual offender" provision. If one looks at the records of antidumping actions in the United States, it seems that in many instances the same companies are defendants time after time. This is certainly the case in electronics and communications. It would appear that certain companies have deliberately instituted corporate policies to repeatedly violate U.S. trade laws, apparently with impunity because we continually let them get away with it. Such policies should not be tolerated. What is needed is a new section to the proposed statute which provides that any company or related group of companies which is found guilty of dumping more than twice is subject to additional penalties, such as a punitive duty, on all its products.

Although I have chosen to focus my remarks on dumping by foreign manufacturers, I do not want you to think we are not concerned about other aspects of American competitiveness in world markets. But what we have found is that even if you prove you are one of the lowest cost, highest quality producers of your product in the world, you still cannot compete with foreign companies who receive encouragement, support and protection from their governments.

Our markets are more open than any in the world because we believe in free trade. The problem is we are the only country playing by the rules. Other countries talk and nod their heads but seem incapable of opening their own markets or preventing abuse of ours. This does not mean that we should abandon our principles. It means we should prevent others from exploiting our position. It is extremely important to realize that foreign countries and their companies will continue to take advantage of us as long as we let them. We must make it abundantly clear that if someone wants to participate in our markets, they must play by the rules of democracy and free competition. If our trade laws are violated, the response should be swift, sure and expensive for the offender, not just a slap of the hand and a promise not to do it again.

As you can tell, I am not an apologist for American industry. America has nothing to apologize for. In the United States we work hard, pay a decent wage, and try to make money on both a short- and long-term basis. These are not things for which we should be ashamed or criticized. The object of international trade and competition should be to raise the standard of living in other countries, not lower our own. But if we continue to allow everybody else to take home a piece of America without giving us anything in return, there is not going to be much left for those of us who live here. Thank you.

Chairman GIBBONS. Mr. Finnigan, American Electronics Association.

STATEMENT OF ROBERT E. FINNIGAN, VICE CHAIRMAN AND SENIOR VICE PRESIDENT, FINNIGAN CORP., ON BEHALF OF THE AMERICAN ELECTRONICS ASSOCIATION

Mr. FINNIGAN. My name is Bob Finnigan. I am cofounder, vice chairman and senior vice president of Finnigan Corp., located in San Jose, Calif. Finnigan manufactures analytical instruments, and we are the major manufacturer of mass spectrometers and associated data systems and chromatograph mass spectrometers, which are known as CMS systems. My company is very international in scope, and we do approximately half of our sales abroad.

I am also a former board member of the American Electronics Association, on whose behalf I am testifying before you today. AEA is the largest trade association of the electronics industry, with over 28 million high-tech electronics member firms. AEA represents manufacturers of telecommunications equipment, semiconductor, computers, components, instruments, software and so on.

Electronics is a vital segment of the American economy, and it is the toolmaker for other industries, providing the equipment needed to strengthen U.S. productivity and the global competitiveness of all sectors. A health electronics industry is key to U.S. leadership in the evolving information age.

Since 1978, the electronics industries have created over a million new jobs in the United States. It is now the largest manufacturing sector in the economy, employing 2.5 million Americans. We in the industry are very proud of this contribution. We believe that it reflects the traditional preeminence of our technological innovation, as well as the strong competitive posture of our industry.

But there is evidence that this strong competitive position is eroding. The U.S. worldwide trade in electronics products has fallen from a surplus of \$7.4 billion in 1980 to a deficit of \$13.1 billion in 1986. Imported electronics products increased their share of the U.S. market by 66 percent between 1980 and 1986, while the percentage of U.S. electronics sales derived from exports fell seven percent.

Mr. Chairman, the electronics industry does not look to Congress to legislate this trade imbalance away. Rather we believe it is the burden of industry to compete more effectively. In this spirit, AEA has established an industry competitiveness task force headed by your former colleague and my good friend, Ed Zschau, which is developing recommendations on what the industry can do internally to reverse this trend.

However, the U.S. Government shapes the international environment in which we do business, and in particular we in industry must rely on the U.S. Government to eliminate overseas barriers which restrict our access to foreign markets, as well as unfair advantages which our competitors receive from their own governments. Clearly, this committee is in a position to reaffirm and strengthen this governmental role, and we very much appreciate your willingness to help.

Before I get into the question of specific trade legislative proposals, allow me to make three general points. First, AEA believes U.S. trade policy should be designed to increase the access of U.S. companies to overseas markets. In the experience of my own company, this would include elimination to the greatest extent possible of all formal barriers, such as duties, as well as informal barriers in the form of discrimination and procurement practices, financing arrangements and the like.

Second, there are a number of export disincentives, particularly in the area of export controls, which we could address here at home to the direct benefit of our own competitiveness. While I realize such legislation is not the jurisdiction of this committee per se, streamlining the export control system is fundamental to the continued health of our industry.

Third, AEA supports the aggressive enforcement by the U.S. Government of U.S. right against foreign unfair trading practices. In support of this objective, AEA advocates, if necessary, the effective utilization of access to the U.S. market.

Two pertinent examples of attempts to enforce the rights of U.S. electronics companies are section 301 cases against Japan in semiconductor trade and Brazil for its informatics policies. In both of these cases, U.S. trade officials have been seeking to eliminate practices on the part of Japan and Brazil which unfairly restrict competitive opportunities for U.S. electronics companies. As yet, neither effort has been entirely successful, but we are encouraged by the aggressiveness with which our negotiators have sought competitive solutions to these problems.

In order to sustain this effort on behalf of U.S. commercial interests, AEA supports strengthening in the trade bill the tools available to U.S. trade officials to work toward these objectives. In summary, AEA supports: extended negotiating authority to reduce foreign barriers; streamlining of the Export Control System and enhancement of the authority of the USTR to respond to unfair trading practices under section 301.

Mr. Chairman, AEA has specific proposals under each of these, as well as other, headings which are outlined in a policy paper attached to my testimony. Rather than reiterating these positions, I would ask this paper be included in the hearing record at the conclusion of my remarks.

Chairman GIBBONS. Yes, sir, it will.

Mr. FINNIGAN. In conclusion, Mr. Chairman, along with reducing the Federal budget deficit, a constructive and aggressive trade policy is fundamental to reversing the erosion of our competitive position. Without a fair shake in foreign markets, we cannot hope to maintain our competitive edge. We would urge this committee to seize the opportunity before it to set a constructive tone for our trade policy by adopting a trade bill with the above outlines elements.

Thank you for your kind attention.

Chairman GIBBONS. Thank you, sir.

[The statement of Robert E. Finnigan follows:]

STATEMENT OF MR. ROBERT E. FINNIGAN
ON BEHALF OF THE
AMERICAN ELECTRONICS ASSOCIATION
BEFORE THE
HOUSE WAYS AND MEANS SUBCOMMITTEE
ON TRADE
FEBRUARY 20, 1987

Mr. Chairman, my name is Bob Finnigan, I am Vice Chairman and Senior Vice President of Finnigan Corporation, located in San Jose, California. Finnigan manufactures a variety of electronics products including mass spectrometers, computer-based data-handling systems, and gas chromatograph/mass spectrometer combinations systems. We are very international in scope and do approximately half of our sales abroad. I am also a former board member of the American Electronics Association on whose behalf I am testifying before you today.

AEA is the largest trade association of the electronics industry, with over 2,800 high tech electronics member firms. As you know, electronics has become an increasingly important segment of our economy; our industry is now the largest manufacturing employer in the country. Our Association represents manufacturers of telecommunications equipment, semiconductor, computers, components, instruments, software and so forth.

ELECTRONICS AS A VITAL SECTOR

Electronics is a vital segment of the American economy, and it is the toolmaker for other industries, providing the equipment needed to strengthen U.S. productivity, and the global competitiveness of all sectors. A healthy electronics industry is key to U.S. leadership in the evolving information age.

Since 1978, the electronics industries have created over a million new jobs in the U.S. It is now the largest manufacturing sector in the economy, employing 2.5 million Americans. We in the industry are very proud of this contribution. We believe that it reflects the traditional preeminence of our technological innovation as well as the strong competitive posture of our industry.

But there is evidence that this strong competitive position is eroding. The United States' world-wide trade in electronics products has fallen from a surplus of \$7.4 billion in 1980 to a deficit of \$13.1 billion in 1986. Imported electronics products increased their share of the U.S. market by 66% between 1980 and 1986, while the percentage of U.S. electronics sales derived from exports fell 7%.

Mr. Chairman, the electronics industry does not look to Congress to legislate this trade imbalance away. Rather, we believe it is the burden of industry to compete more effectively. However, the U.S. government shapes the international environment in which we do business. In particular, the U.S. government must eliminate any unfair advantages which our competitors receive from their own governments. We appreciate this committee's interest in this subject.

OVERVIEW OF AEA'S POSITION

Before I get into the question of specific trade legislative proposals, allow me to make three general points:

First, the AEA believes that the U.S. needs a long-term strategy for increasing the international competitive posture of industry. Trade policy is an integral part of this strategy which should also address macroeconomic factors such as the budget deficit which influence the dollar and the cost of capital.

Second, in the area of trade, the AEA has as its primary goal to achieve a global trade environment that promotes, to the maximum extent possible, truly free, open, and vigorous competition in international electronics markets.

Third, we believe that Congress, and particularly this committee has an important opportunity to shape the competitive environment for the electronics industries through trade legislation.

Our legislative agenda which I have attached to my testimony has two main thrusts. The first thrust aims at removing export disincentives which result from government policy and replacing them with policies which will promote the sale of U.S. electronics abroad. As this is not the subject of these immediate hearings, it will suffice to say that we favor streamlining the export control system, and focusing it on truly sensitive technologies. We believe, along with the members of the National Academy of Sciences task force which recently released its report on this subject entitled "Balancing the National Interest" that this would remove unnecessary burdens to exports while advancing the national security objective.

In the area of export promotion, we have proposed a cooperative effort be undertaken between industry and government to identify overseas market opportunities and introduce new U.S. products and processes. Our model for this program is the U.S. Electronics Industry Japan Office which AEA opened in cooperation with the Department of Commerce in 1984 and which serves these objectives for our industry in the Japanese market.

The second thrust of our legislative agenda is to strengthen the tools available to U.S. trade officials to effectively eliminate trade barriers and distortions. Here, I would like to specifically address the question of responding to unfair trading practices.

BARRIERS AND DISTORTIONS IN ELECTRONICS TRADE

As you already know, there is a strategic side to trade in electronics. Other nations, perceiving that their ability to compete internationally is tied to the development of a sophisticated electronics sector, have sought to build a place for themselves in the world market. Both developed and developing countries have erected formal or informal barriers to discourage the sale of U.S. electronics products in their markets. Several of our trading partners have done so in conjunction with policies which encourage the aggressive pursuit of the U.S. market including national support for the development of products to compete with U.S. offerings.

As a consequence, the U.S. electronics industries face a wide range of barriers and distortions which are either not adequately covered by international trade rules or violate the letter or spirit of international trade commitments. These include a lack of intellectual property protection in a number of countries, closed government procurement systems, restrictive standards and certification practices, and investment performance requirements.

AGGRESSIVE ENFORCEMENT OF U.S. RIGHTS

AEA believes that U.S. trade policy should be designed in the first instance to increase the access of U.S. companies to overseas markets. In support of this objective, AEA advocates, if necessary, the effective utilization of access to the U.S. market.

Two pertinent examples of attempts to enforce the rights of U.S. electronics companies are Section 301 cases against Japan in semiconductor trade and Brazil for its informatics policies. In both of these cases, U.S. trade officials have been seeking to eliminate practices on the part of Japan and Brazil which unfairly restrict competitive opportunities for U.S. electronics companies. As yet, neither effort has been entirely successful, but we are encouraged by the aggressiveness with which our negotiators have sought competitive solutions to these problems.

In order to sustain this effort on behalf of U.S. commercial interests, AEA supports strengthening in the trade bill the tools available to U.S. trade officials to work toward these objectives. In summary, AEA supports:

- Extended negotiating authority;
- Enhancement of the authority of the USTR under section 301;
- Antidumping laws which deter multiple dumping offences;
- Full market access for U.S. telecom suppliers; and
- Stronger protection for U.S. intellectual property.

CONCLUSION

Mr. Chairman, along with reducing the federal budget deficit, a constructive and aggressive trade policy is fundamental to reversing the erosion of our competitive position. Without a fair shake in foreign markets, we cannot hope to maintain our competitive edge. We would urge this Committee to seize the opportunity before it to set a constructive tone for our trade policy by adopting a trade bill with the above outlined elements.

Thank you for your kind attention.

American Electronics Association

AEA

February, 1987

ENHANCING U.S. TRADE POLICY THROUGH LEGISLATION

The AEA seeks a trade bill which in conjunction with other legislation, particularly efforts to reduce the federal budget deficit, will enhance the competitive posture of the U.S. electronics industries by:

- 1) strengthening the tools available to U.S. trade officials to effectively eliminate trade barriers and distortions; and
- 2) enhancing U.S. Government efforts to promote exports and reducing self-imposed disincentives to exports. For example, streamlining the export control system will directly improve the ability of U.S. companies to compete while enhancing the national security.

Toward the goal of strengthening tools available to U.S. trade officials, AEA recommends that the trade bill include the following provisions:

NEGOTIATING AUTHORITY

Extended negotiating authority for a specified period sufficient to allow for completion of the Uruguay Round and to address related bilateral trade issues. The fundamental U.S. objective of these activities should be to obtain the same degree of access to foreign markets for U.S. goods, services and technologies that other countries enjoy in the United States.

Direction that U.S. negotiators seek stronger rules for dealing with traditional issues such as technical standards, government procurement of telecommunications and other electronics products, procedures for dispute settlement and safeguards; and address emerging problems, such as intellectual property protection, services, technology transfer requirements in the context of investment and competition policies.

Direction that negotiators seek to gain ratification by developing countries of the GATT codes negotiated in the last round as well as their commitment to participate in efforts to enforce all international trade rules.

SECTION 301 REFORM

Enhancement of the authority of the USTR to initiate cases, conduct investigations and in the absence of specific instruction from the President, take appropriate action to open foreign markets and eliminate unfair trading practices.

Requirement to analyze, publish and consider the impact of any proposed 301 remedy on the U.S. economy.

Automatic retaliation only in those limited cases where there has been a positive GATT finding that a foreign practice is in violation of international trade rules.

Expansion to specifically include targeting* and private collusive activities as actionable items.

* targeting as defined by the International Trade Commission

DUMPING DETERRENCE

Amendment of U.S. antidumping laws to provide for credible deterrents to multiple dumping offenses. A strong deterrent will obviate the need for a "private right of action," to which AEA is opposed.

INTELLECTUAL PROPERTY PROTECTION

Elimination of the proof of injury currently required under Section 337 for companies which have demonstrated that their intellectual property rights have been violated by foreigners.

Elimination of the "economically and efficiently operated" standard currently required under Section 337.

Extension of authority providing incentives for foreign countries to conform their national chip protection scheme to those of the U.S.

Strengthened international protection of U.S. intellectual property rights for trade names, trade secrets, trade marks, copyrights, designs and processes.

TELECOMMUNICATIONS MARKET ACCESS

Authority to undertake multilateral or bilateral negotiations to achieve fair and equitable foreign market opportunities for U.S. telecommunications suppliers. Before undertaking such negotiations, the USTR should analyze all foreign acts, policies and practices that deny such opportunities and develop country by country negotiating objectives, priorities, and prospects for negotiating success.

Authority to take unilateral actions necessary to achieve negotiating objectives if no agreement is reached within two years.

CUSTOMS HARMONIZATION

Implementation by January 1988 of the recently negotiated Harmonized tariff system.

Toward the goal of enhancing U.S. Government efforts to promote exports and reducing self-imposed export disincentives, AEA recommends the following provisions:

EXPORT PROMOTION

Authority for the Department of Commerce to establish a market development cooperator program to aid industries in identifying overseas market opportunities, introducing new products and processes, eliminating trade and technical barriers, and improving economic and trade relations between the U.S. and other countries.

EXPORT CONTROLS

(A more detailed position paper is available from AEA.)

Elimination of reexport controls on finished U.S. products reexported to, within or among COCOM or 5(k) countries as well as foreign goods containing 20% or less of U.S.-origin components exported to any destination.

Decontrol of low-level technology to all free world countries, and additional decontrol for exports to COCOM countries.

Requirement that the uncontrolled availability of goods and technology in free world countries be sufficient grounds for making a foreign availability determination.

Requirement that the Secretary license exports to any free world destination if the end user can obtain the item from another source.

Requirement that the Secretary of Commerce acknowledge the receipt of foreign availability allegations from industry and publish in the Federal Register within 30 days the action the Secretary has taken on the allegation. Allow a maximum of seven months for the Secretary to make a decision.

Permission to use a distribution-type license for certain exports to the PRC.

Requirement that the U.S. delegation to COCOM include (either officially or unofficially) representatives of U.S. industry who are knowledgeable about the items being reviewed.

Requirement that the Secretary of Commerce review, at least annually, all U.S. unilateral controls, delete those that are no longer appropriate, and publish a list of remaining controls in the Federal Register together with a specific justification for each control; also that he report to Congress on the steps being taken to achieve multilateral status for the remaining controls.

Chairman GIBBONS. Our last witness on this panel is Thomas R. Howell, the Semiconductor Industry Association.

**STATEMENT OF THOMAS R. HOWELL, COUNSEL,
SEMICONDUCTOR INDUSTRY ASSOCIATION [SIA]**

Mr. HOWELL. Thank you, Mr. Chairman.

My name is Thomas R. Howell. I represent the Semiconductor Industry Association, which represents over 50 U.S.-based manufacturers of semiconductors that represent about 90 percent of U.S. semiconductor production. I represent an industry severely injured by dumping.

This subject is particular germane, given the debate on competitiveness. The U.S. semiconductor industry is about as competitive an industry as you are likely to find in the United States today. The best measure of that fact is the performance of the U.S. semiconductor producers in Third World markets, markets outside the United States and Japan. In Europe, in the 5 years between 1982 and 1986, U.S. semiconductor producers held 53 percent of the market, Japanese producers only 10 percent. In the rest of the world, the world outside the United States, Europe and Japan, U.S. producers held 47 percent of the market, Japanese producers only 28 percent. So we have a competitive international semiconductor industry.

However, this industry has suffered severe competitive reverses in the past 3 years. Japan has made significant gains in market share, U.S. companies have lost share in markets like DRAM's and SRAM's. The deterioration of the U.S. semiconductor industry has been so severe in the past 3 years the defense community has begun to express concerns.

Now the issue in this case is not so much one of competitiveness but the nature of the competition. Joe Parkinson has already talked about the Government assistance which Japan has given to its semiconductor industry. Another important factor is that the semiconductor producers are large diversified firms affiliated with Japanese banks which are now among the largest financial institutions on earth. Fujitsu is affiliated with the Dai-ichi Kungyo bank which is now the biggest private financial institution in the world. These companies have enormous financial resources.

In semiconductors, the Japanese electronics firms have engaged in sustained sales far below the cost of production. They have been dumping for a sustained period. This follows a pattern which has been established by the same companies in other industries where they have used dumping to expand their market position in the United States. They can afford to do this, and from their perspective, it is an excellent investment.

The margins in the dumping cases during the past 2 years have been enormous, in some cases, over 100 percent. It is rare one finds a dumping case with margins that deep, but the margin of dumping has been that deep in the semiconductor cases. When that degree of price undercutting happens, it is no longer a question of efficiency, productivity or any of the other buzz words of competitiveness. No company, United States or Japanese, can make money

at the prices the Japanese firms have been charging in recent years no matter how efficient they are.

When this kind of dumping occurs, competition becomes a contest not of efficiency but who has deeper pockets, and there is no question the Japanese have the deeper pockets. We are seeing the natural results of this process being played out in the market today and being played out very quickly. U.S. companies are not in business to lose money. U.S. business is not attracted by the prospect of a blood bath. They are avoiding product areas like DRAM's the Japanese have chosen to dominate.

This country has not devised an adequate response to this problem. There has been a welter of litigation, years of negotiations with the Japanese in the electronics sector. SIA is proposing legislation which is designed to address the specific problem of companies which dump repeatedly as a means of achieving strategic commercial objectives, the so-called multiple offenders or repeat offenders.

The purpose of SIA's proposal is to increase the cost of dumping sufficiently to deter it. SIA's proposed legislation would provide the proceeds of antidumping duties be paid to U.S. companies that have been injured by dumping. Currently they are paid into the U.S. Treasury, and there is no compensation of any kind for injured U.S. firms. The legislation calls for enhanced monitoring and self-initiation of antidumping investigations.

The legislation also provides that multiple instances of dumping in a given product area would ease the evidentiary burden of proof to show injurious intent in actions brought under the 1916 Anti-dumping Dumping Act.

These are not radical proposals. They build on an existing base of U.S. law. They create no new remedies. They are designed to be consistent with U.S. international obligations. I might add that SIA is something of an unusual association in that it is made up not only of semiconductor producers but consumers. There has been a substantial amount of dialog within SIA about devising legislation that will deal with the problem of multiple offenders without at the same time inadvertently injuring U.S. consuming interests.

There has been a lot of compromising that has taken place to develop this proposal, and I think it is neither a radical proposal that would hurt consuming interests nor is it so watered down it would not be effective to resolve the problem. I think the legislation has a lot to commend it.

At the same time, SIA recognizes the trade law reform by itself is not enough. Even an effective system of remedies, a very aggressive administration trade policy position is of little value if the industry is not competitive. The semiconductor industry is engaged in an initiative of providing for joint semiconductor manufacturing by U.S. firms. The purpose of that initiative is to insure U.S. industry continues to employ the most advantaged manufacturing techniques in the world. This effort cannot succeed if the problem of dumping is not solved.

I don't need to tell any of you the stakes involved are enormous. This industry, the semiconductor industry, is the linchpin of an

entire industrial complex, the information industries, which are going to be absolutely crucial to our economy in the next 10 to 20 years. Accordingly, I hope your subcommittee gives our legislative proposal its consideration and ultimately your support.

[The prepared statement follows:]

Testimony of

THOMAS R. HOWELL

on behalf of the

SEMICONDUCTOR INDUSTRY ASSOCIATION

Mr. Chairman, I am Thomas R. Howell. I am testifying on behalf of the Semiconductor Industry Association ("SIA") which represents over 50 U.S.-based manufacturers of semiconductors, covering more than 90% of U.S. industry-based sales. I appreciate the opportunity to appear before your Subcommittee today.

At present there is a great deal of discussion both in and out of the government about a perceived decline in U.S. "competitiveness." The current trade imbalance is forcing an examination of its root causes, and the extent to which new policies and new laws may be needed. I am here today to address the specific question of how U.S. trade policy affects the competitiveness of the semiconductor industry, but with the understanding that the trade question is only part of a larger picture.

The U.S. chip industry has for many years held up as a model of an internationally competitive American industry. It spends a larger percentage of our sales revenues on research and development than any other U.S. industry -- 10.7 percent of sales versus 3.1 percent for U.S. industry as a whole. It pioneered virtually all of the technological breakthroughs that have made this industry what it is today. U.S. semiconductor firms have not only entered foreign markets, but have historically held a leading position in those markets -- outside of Japan.

However, during the past four years, the international competitive position of the U.S. industry has deteriorated dramatically. The U.S. industry has steadily lost world market share to Japanese firms. The three largest semiconductor vendors in the world are now Japanese firms. Japanese companies now dominate the key "technology drive" product lines, such as dynamic and static random access memories (DRAMs and SRAMs) which enable producers to enhance the competitiveness of all their other semiconductor products. Our own companies have suffered hundreds of millions of dollars in operating losses, and some have left the business or dropped out of key technology driver product lines. The difficulties of the U.S. semiconductor industry have generated increasing concern in the U.S. defense community, since microelectronics technologies lie at the heart of all advanced defense electronics systems.^{1/}

The substantial shift in the competitive balance in Japan's direction has multiple causes. The major Japanese companies are huge, diversified entities who are affiliated with banks that are among the largest private financial institutions on earth. They have been better able to withstand the recession in demand which has affected the industry since 1984, and are prepared to incur substantial losses to maintain or increase market share. At the same time, changes in semiconductor technology have dramatically increased the scale of investment required to remain in the business -- and the Japanese financial system affords Japanese firms a lower cost of capital and a more stable access to capital than is the case in our system. The overvaluation of the dollar prior to 1986 was a major disadvantage for U.S. producers.

However, I do not believe that any of these factors have played as important a role in the current difficulties

^{1/} In spite of these trends, U.S. firms retain an overall competitive edge over Japan, but this edge is eroding.

of the U.S. semiconductor industry as the trade practices of the Japanese companies themselves.

Japanese Dumping

The Japanese electronics industry is dominated by seven diversified firms which manufacture not only the bulk of Japan's semiconductors, but also the end-products which incorporate them -- consumer electronics products, telecommunications equipment, and information products. These firms have a history of persistent dumping in the U.S. market (Figure 1). In the 1970s, such dumping the U.S. television industry, and in the 1980s, dumping by a number of the same firms has occurred in a number of semiconductor and telecommunications product areas. In each case, the net result has been the expansion of Japanese market share, and material injury to the U.S. industry. In some sectors, such as 256K DRAMs, Japanese firms have taken over virtually the entire market.

For these Japanese firms, dumping is a good investment. While it may require them to sell their products below cost prices for a sustained period, they can afford to do this, given their massive internal resources and relationships with the banks, and the ultimate rewards are substantial. In the technology driver product areas like DRAMs and EPROMs, dumping eliminates U.S. competitors, and enables Japanese firms to dominate product areas which not only represent multi-billion dollar markets in themselves, but which enhance the competitiveness of virtually every other product in their portfolios.^{2/} Moreover, Japanese dominance in current generation DRAMs and EPROMs is likely to result in their domination of future generations of DRAMs and EPROMs. A Mitsubishi executive commented in 1986 that none of the Japanese producers

will drop DRAMs, no matter how unprofitable they may be, because we need that base to develop 1M-bit and 4-M-bit DRAMs.^{3/}

As Figure 1 indicates, U.S. antidumping remedies, even when invoked, have proven more of a nuisance than a deterrent, and have neither halted Japanese dumping or forestalled Japanese dominance of progressively larger segments of the U.S. electronics market. Japanese firms can absorb antidumping duties simply as a cost of doing business.

Japanese dumping places U.S. companies in a fundamental dilemma. No matter how efficient they are, no company -- U.S. or Japanese -- can be profitable at the prices being charged by the Japanese producers. As a former Commerce Department official commented last year,

Japanese policies result in chronic dumping in U.S. market, as well as sales below cost in all other markets. With everyone losing money, the winner is not

^{2/} For a recent analysis of the economic rationale for dumping by Japanese electronics firms, see K. Yamamura and J. Vandenberg, "Japan's Rapid Growth Policy on Trial," in G. Saxonhouse and K. Yamamura, eds., Law and Trade Issues of the Japanese Economy (1986).

^{3/} Electronics News, April 29, 1986.

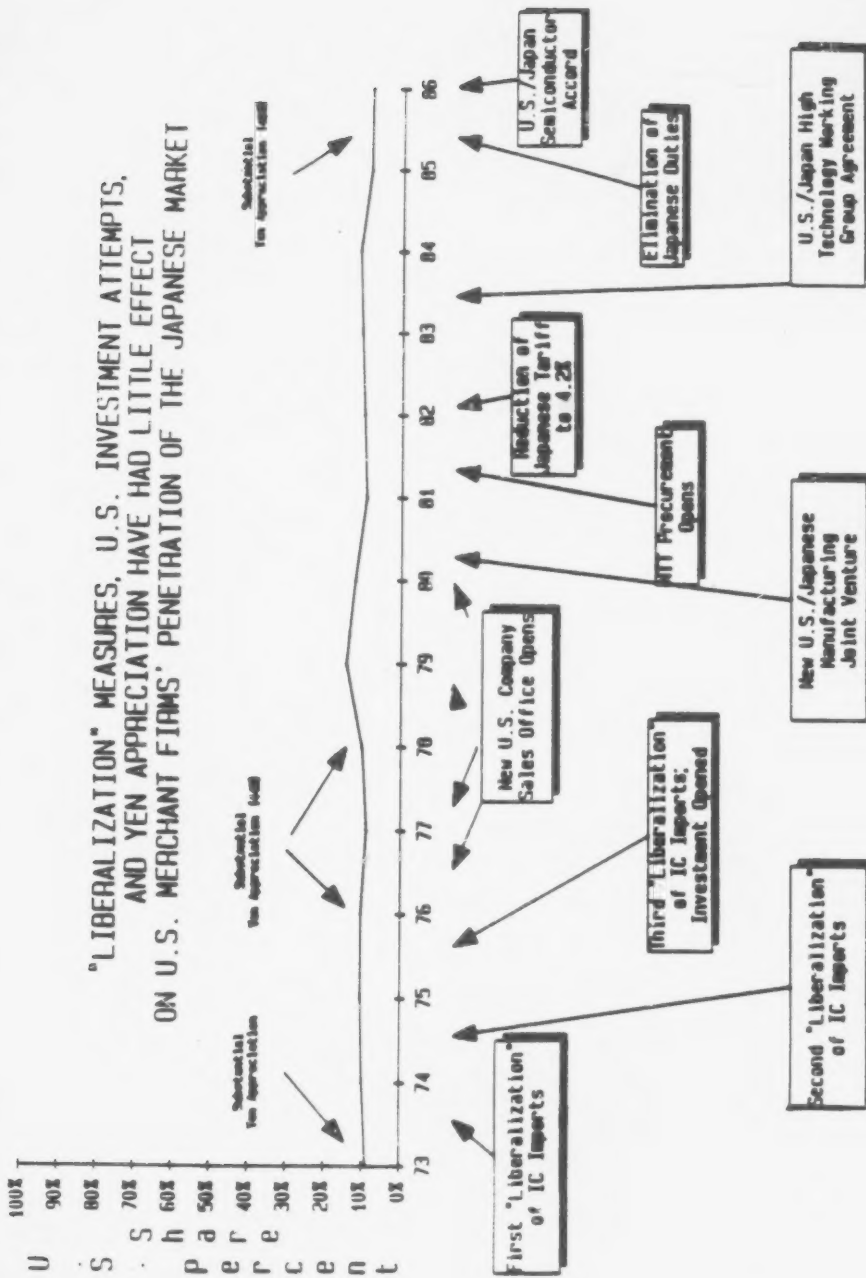
FIGURE 1

DUMPING IN THE U.S. MARKET BY JAPANESE ELECTRONICS PRODUCERS
(Margins of Dumping)

<u>Case</u>	<u>Hitachi</u>	<u>Toshiba</u>	<u>Fujitsu</u>	<u>Mitsubishi</u>	<u>Matsushita</u>	<u>Okai</u>	<u>NEC</u>
Large Power Transformers (1970)	21.4	51.4					
Black & White TV (1971)	43.4	38.8		81.7	55.2		
Color TV (1971)	58.4	32.3		52.7	74.0		
High Power Amplifier Assembly & Parts (1981) (two types)							25.4 41.4
High Capacity Pagers (1982)					109.1		70.4
Cellular Mobile Phone (1984)	3.0		57.8	87.8	106.6	9.7	95.6
64K DRAM (1986)	11.9	20.8	20.8	13.4	20.8	35.3	22.7
EPROM (1986)	85.2	21.8	103.0	93.9	93.9	93.9	188.0
256K DRAM (1985)*	19.8	49.5	74.4	108.7	39.7	39.7	108.7

Margins rounded off to nearest tenth of percent

*Preliminary margin



the most efficient producer, but the one with the deepest pockets. Since the Japanese semiconductor companies are all part of large conglomerates owned by major banks and ultimately backed by the Japanese government, theirs are deeper.^{4/}

U.S. firms must thus choose between disinvestment in the product areas Japanese firms have elected to dominate, or meeting Japanese prices and suffering massive losses.

Disinvestment means surrendering the technologies which U.S. firms need to remain competitive in the future. While that is an unattractive option, the alternative -- massive losses -- is sometimes an impossible one. In 1985-86, for example, U.S. EPROM producers confronted a wave of dumped Japanese EPROMs -- with one Japanese firm exhorting its distributors to follow the so-called "ten percent rule," repeatedly cutting the price by 10 percent until a sale was gained, with the Japanese firm guaranteeing the distributor a 25 percent profit regardless of the final price. U.S. firms elected to "stand and fight" in EPROMs, matching Japanese prices in order to hold market position. The cost to U.S. firms was severe -- in the first six months of 1986, the industry's ratio of operating income to net sales for EPROMs showed a loss of 50 percent. The U.S. International Trade Commission's conclusion was that

Meeting Japanese price levels resulted in significant financial losses . . .
[T]hey chose to fight Japanese dumping on the basis of price. . . .^{5/}

The U.S. industrial system is not organized in a manner which permits private companies to respond effectively to the phenomenon of massive, protracted below cost sales. In our system, investment is attracted by the prospect of a return, not in order to finance a "bloodbath" to expand market share. As a result, as Japanese dumping continues, we will see a progressive shift of investment away from those U.S. sectors which Japanese firms have chosen to dominate in this fashion. Unless a response is found to this phenomenon, whatever steps we may take to enhance our "competitiveness" are likely to prove unavailing.

Market Access In Japan

Japan is now the world's largest market for semiconductors -- in 1986, it exceeded the U.S. market in size for the first time. During the past decade, while U.S. firms held a leading position in other world markets, they have never held more than about 10 percent of the Japanese market for any sustained period. Because competitiveness in microelectronics is directly linked to sales volume -- which translates directly into gains in cost and quality competitiveness -- the continuing inability of U.S. firms to participate in this market in a meaningful way holds serious long run implications for the U.S. industry.

4/ Clyde Prestowitz in Wall Street Journal, September 26, 1986.

5/ Erasable Programmable Read Only Memories from Japan (final) U.S.I.T.C. Pub. No. 1927 December, 1986 pp. 17-18.

The Japanese government protected its domestic market until 1974-1975. Formal protective measures were phased out at that time, but the Japanese government implemented "liberalization countermeasures" designed to offset the practical impact of liberalization. The U.S. share of the Japanese market -- a market where semiconductor consumption was dominated by the leading Japanese semiconductor producers -- has never shown a significant increase over the share held when the market was formally protected (Figure 2).

U.S. Government Actions

U.S. government policy measures have not, to date, resolved the problems posed either by Japanese dumping or by lack of U.S. access to the Japanese market. An agreement negotiated by the two governments in 1983, designed to prevent dumping and improve U.S. market access in Japan, collapsed in the wake of massive Japanese dumping and a further decline in the U.S. market position in Japan in 1984-85. The U.S. industry and the U.S. government brought antidumping actions against Japanese firms in 1985, and SIA filed a Section 301 action in that year -- actions which led to the negotiation of a comprehensive agreement in 1986 designed to forestall dumping and improve U.S. access to the Japanese market. Unfortunately, despite this agreement, Japanese dumping has continued, and there is little indication to date that Japan is delivering on the market access commitments made in the agreement.

SIA's Legislative Proposals

Since 1985 SIA has been examining possible changes in U.S. law which would permit a more effective response to the problem of "multiple offenders" -- that is, companies that repeatedly engage in dumping, as a strategic measure to achieve dominance in a particular sector. SIA's approach has been noteworthy because our association consists both of semiconductor producers, who sell on the merchant market, and their customers -- semiconductor end-user companies such as the manufacturers of computers and telecommunications equipment.

SIA's merchant companies, while seeking more effective antidumping remedies, wanted to avoid sweeping or draconian measures which could prove detrimental to their customers. By the same token, while our end-user companies wanted to avoid remedies that could jeopardize their access to critical components, they were at the same time concerned that dumping was eroding their domestic supplier base -- and they viewed more effective antidumping remedies as desirable. Finally, both merchants and end-users were strong proponents of free trade and wanted to avoid protectionist measures and actions which were plainly in conflict with the General Agreement on Tariffs and Trade ("GATT").

After extensive discussions between semiconductor merchants and end users, SIA has developed a legislative proposal to address the problem of multiple offenders. A summary of SIA's proposal is attached to my testimony.

- * SIA's proposal is based on the concept of increased, and more effective use of existing U.S. antidumping remedies. It would build on these remedies rather than create a new and different form of relief.

- * SIA's proposal is not designed to create new classes of potential defendants. For example, this proposal would not permit U.S. producers to sue U.S. companies which purchase imported products.
- * SIA's proposal would provide for compensation to companies injured by dumping from the duties collected. Under the current system, such duties are simply paid into the U.S. Treasury, and no compensation of any kind is available to injured companies.

The fact that the same Japanese firms have engaged in repeated instances of dumping indicates that current antidumping remedies are inadequate. The purpose of this legislation is to increase the cost of dumping sufficiently to halt it. At the same time, it is SIA's intention that this legislation not disadvantage any customer in any world market.

Conclusion

SIA is fully aware that no combination of trade actions can, by themselves, ensure the competitiveness of a U.S. industry. That job is ultimately up to the industry itself. As you are no doubt aware, the U.S. semiconductor industry is currently engaged in a major effort to enhance its competitiveness, which includes an initiative for joint manufacturing of technology driver products by U.S. firms. This is designed to ensure that U.S. industry continues to employ manufacturing technologies as advanced as any in the world.

On the other hand, no industry effort to enhance its competitiveness can succeed, by itself, if the market is distorted by systematic dumping. SIA is proposing a legislative initiative to address that problem, and we hope that your subcommittee gives it careful consideration and support.

Antidumping -- Multiple Offenders

1. After the first affirmative finding of dumping -
 - a. U.S. government distributes the proceeds of any subsequent antidumping duties to the injured companies.
 - b. With respect to the manufacturer of the dumped products,
 - (i) A U.S. company may submit a request to the Commerce Department (backed by sufficient evidence to suspect that dumping may be occurring) requesting Commerce to monitor imports of products within the same product category where dumping is suspected, and Commerce must commence monitoring imports of that product;
 - (ii) If monitoring reveals sales at less than fair value, Commerce must self-initiate an antidumping investigation and conduct it on a fast track;
 - (iii) Commerce will be required to find "critical circumstances" in any antidumping action brought against the manufacturer in the same product area;
 - (iv) The USITC must take the effects of prior dumping into account in determining injury.
2. After the second affirmative finding of dumping against the manufacturer in the same product category within a 10-year period, Commerce must monitor the products of the manufacturer within the same product category, and self initiate a fast-track antidumping investigation if monitoring reveals dumping.
3. After the third affirmative finding of dumping against the manufacturer in the same product category within a ten-year period.
 - a. In any civil action for damages against the manufacturer under the 1916 Antidumping Act, a rebuttable presumption would be established that sales at less than fair value were made with the intent of injuring or destroying a U.S., industry (no treble damages).
 - b. Commerce will institute broader monitoring of products within related groupings.
4. President will be given a mandate to renegotiate GATT Antidumping Code to permit enhanced penalties against multiple offenders.
5. Same "product category" means similar products made by similar processes under similar conditions.
6. Companies subject to outstanding antidumping orders on date of enactment entered after Jan. 1, 1980 are deemed "first offenders."
7. Suspension agreements and settlement agreements count as affirmative findings of dumping.

Chairman GIBBONS. Thank you.

We particularly appreciate your having here a specific outline of what you would like to have. We will study it.

Mr. Frenzel.

Mr. FRENZEL. Thank you very much. Thank you for your good advice.

I notice two of you mentioned in particular the difficulties of export control procedures in the United States. Although it isn't part of this committee's precise jurisdiction, the committee did have Chairman Bonker of the Foreign Affairs Subcommittee on International Economic Policy before us, and he, of course, placed into last year's trade bill, which is the vehicle for this year, improvements in those export control amendments.

Are those the improvements which you seek, or are they enough? I direct the question to Mr. Finnigan and perhaps to Mr. Parkinson, who mentioned the controls, at least obliquely.

Mr. FINNIGAN. I think we would ultimately like to see elimination of the requirement for a reexport license, where products are going to COCOM nations and reexport licenses and export licenses by firms who are part of our companies in Europe and so on who are exporting to any territory where less than 20 percent of the makeup of the products are made up of U.S. components.

Mr. FRENZEL. Thank you very much. I hope in whatever trade bill is passed this year there will be improvement. Do you want to comment, Mr. Parkinson, on that?

Mr. PARKINSON. I think it is a very tough issue. In our particular market, DRAMs, we are the only one on the open market to my knowledge still producing in the United States exclusively, and you cannot compete with a Korean firm that ships instantly. I don't know how we are going to eliminate the problem other than to lift the restrictions on these components that are widely available from other sources outside the United States, to have any sort of restraint. It is a matter of degree.

But any sort of restraint impairs our ability to compete. So I think the general direction we are going is helpful. But I think we need to take a step back and examine who we are helping or are we hurting ourselves more than we are hurting the Soviet Union, Red China or whoever we are trying to control from getting these products.

Mr. FRENZEL. Thank you. I think Chairman Bonker has pointed out that the law was to protect American producers in the case of foreign availability, and it has not worked out that way. However, he is looking for ways to make it work.

One of the problems with the semiconductor agreements or disagreements with Japan was that when they were announced and began to have some slight effect, which you tell me is not the case any more, some of your good customers, the American users of semiconductor products, began to squeak in fairly loud tones to our trade negotiating officials. I think it would be a great help to them if we could get both the producers and consumers in the industry to decide on a single policy that would guide them and not force them to pin a rose on one or let the light shine on one but not the other.

Do any of you have any comment to offer? Are there negotiations going forward in the industry that might lead us to some kind of common policy?

Mr. HOWELL. Mr. Frenzel, I might speak to that. I think the crux of the problem is if the price of Japanese semiconductors is higher in the United States than it is in world markets, there is an incentive for semiconductor consumers in the United States to move their operations offshore. I don't think that is necessarily in the U.S. interest or the interest of the industry.

The way to resolve that problem is to insure the Japanese are not dumping not only in the United States market but in the world market. SIA has had a substantial number of discussions with AEA on the subject. I will let Bob speak for AEA. The way to solve this problem is to get the Japanese to stop dumping in Third World markets, anywhere in the world. SIA's position is it does not want to see any policy pursued that hurts the U.S. customer base. We are pursuing the same theme in our legislation here. We don't want to do anything that would disadvantage any U.S. consumer anywhere in the world.

Mr. FRENZEL. Does the AEA have a similar position?

Mr. FINNIGAN. AEA, as Joe has mentioned, or as Tom has mentioned, is working with SIA and is coming up with a position in this area.

Mr. FRENZEL. Do you want to comment on that?

Mr. PARKINSON. There again, it is a very tough problem, because the Japanese, with 85 to 90 percent of the DRAM market, which is the largest component used, have now got a built-in ally. They have got the consumers as an ally, and basically the question going out to the American public is, who are we going to satisfy at this point? Motorola, Intel, Advanced Micro Devices have all gotten out of it, and only Micron has a sliver of the total production still in it. Let the little guy go down the tube so we can buy DRAM's cheap.

There is definitely a built-in conflict, and you will not see, in my opinion, consensus resolution. We are going to have to take a hard line. You are not going to get a consensus because our feeling is that you got to hit these guys and hit them hard for their violations in the past, and that means somewhat higher pricing in order to preserve any DRAM industry in the United States.

So I don't anticipate a consensus, and I think it is going to be one of those hard decisions you have to make. Is it fair to let these Japanese succeed by having dumped for such a prolonged period?

Mr. FRENZEL. Thank you very much, Mr. Chairman. I yield.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

I would like to thank all of you gentlemen for testifying. I guess one thing I would like to establish at the beginning is whether any or all of you are familiar with the Gephardt amendment, so-called Gephardt amendment in last year's trade bill, and whether you would specifically urge us to include that similar amendment in this year's trade bill.

Mr. FINNIGAN. I might address it. We did oppose the Gephardt amendment in the previous bill. We are currently studying this. We have not arrived at a position. But we will have one shortly, and our staff will advise you of that.

Mr. PEASE. Thank you. Mr. Howell?

Mr. HOWELL. I believe SIA has no position as yet on the Gephardt bill. I will say, when one comes to the point of retaliation, and SIA has looked at the issue of retaliation, the question is how does one retaliate against a country or group of companies that have practiced adversarial trade. One has to be careful when one looks at sanctions to get at the offender without at the same time disrupting or destroying a U.S. industry inadvertently. I think that is doable.

You have to find products that are exported by those companies for which there is adequate domestic alternatives or substitutes, or even another import substitute, and go after them in that way. Retaliation should be surgical and directed at the offenders. I would urge the committee, in considering retaliatory measures or restrictive measures, that this should be the guiding principle.

Mr. PEASE. Mr. Parkinson?

Mr. PARKINSON. Micron is all for the Gephardt amendment. We think we have been on the defensive too long, and we have been too delicate and been approaching this too surgically for way too many years with the result we have gone from the No. 1 creditor nation to the No. 1 debtor nation in something like 5 or 6 short years. The trade imbalance is now over \$150 billion a year, it is very easy to shut these industries down. I can tell you it is a hell of a challenge to start them back up again.

We need to go on the offensive on a broad front and put the burden on them to figure out how to help us solve that problem, as opposed to swatting flies, which is all we have been doing for the last 4 or 5 years.

Mr. PEASE. OK. I was particularly interested, Mr. Parkinson, in your testimony. I think it is very constructive, Americans for many years have reacted very negatively to monopolies, particularly tendencies here in the United States. It seems to me there is a pretty clear-cut case of efforts by the Japanese to monopolize the U.S. market by traditional predatory price cutting.

For the life of me, I can't understand why Americans, at least the American Government, doesn't respond as outraged as they should be, as we would if it were done domestically. Normally, if a U.S. company, a big supermarket chain, wants to drive you out of business, it cuts its prices for a period of time and the big chain has the deep pockets and the small chains do not. After the small chain is out of business, they start raising their prices again.

You tell us the Japanese now have 90 percent of the U.S. market. Are there any signs they are ready to take advantage of that monopoly, near monopoly situation? Are they running prices back up again now that they have that market penetration?

Mr. PARKINSON. Well, I don't mean to bore you with antitrust theory, but let me say there do not appear to be any signs that prices are running back up. Also, it appears that there is a difficulty with the current U.S. antitrust laws. In the example you gave of the grocery store dropping its prices to drive out his small rival, that is illegal.

What is happening here is that it is not a grocery store. It is a group of grocery stores over in Japan coordinated by the govern-

ment undertaking what they are doing. And so we did, in fact, file an antitrust case against the Japanese firms.

Two problems: One, you have got to prove, if you are filing it against a group of them, that they acted in collusion. But if that collusion was through the government, it is exempt. And that was proved in the OPEC oil case. So there is no question in this case that makes our burden extremely difficult.

Second, the Supreme Court, in the recent *Zenith* case, has taken the position that you have got to show the pricing was not just below cost—for example, a fully loaded cost—but basically below marginal cost. And so there again they are encouraged to sell over a very prolonged period, under fully loaded but not below marginal cost.

We feel in our case it has been below marginal cost for a prolonged period, but that is the difficulty with our antitrust laws. Again, if those were amended to provide, as we proved they were selling below cost in the dumping case, that should be an automatic, per se, antitrust violation, entitling us to treble damages.

That is the problem. You can't just take on one company. You are taking on a group, and they are claiming government protected collective action.

Mr. PEASE. Is my understanding correct in the antidumping case your industry brought that there was no penalty applied in that antidumping case. In lieu of the penalty, there was an international agreement which you tell me has no enforcement mechanism, and has not been enforced; is that correct?

Mr. PARKINSON. Not exactly. First, the industry did not bring the dumping action. We tried to work with the industry, and couldn't, because they had gotten out of our business. That is why you see representatives here of the SIA and the AEA and ourselves, because we are it in DRAMs. They are out of it. We brought our own case on the 64K and did win, and it was a final action. And there have been penalties imposed and duties collected in the 64.

But, by the time we got to that final stage, we were on to a new generation, the 256K, and now the one Meg. So it was a day late and a dollar short, and the cow was already outside the barn. There is no putting it back in. We did not get compensated for the damage we had suffered, either, so the government then initiated the 256 and one Meg. cases which are relevant to the current market, but those were then suspended as a result of this trade agreement so they collected no duties which would prop up the American market.

And you asked why isn't the Government excited and unhappy with this. I would say there is no one more unhappy than the people in Commerce, and Secretary Yeutter, and they have done what they can. But like you said, there is no remedy, and I think that is good.

Since there is no remedy, we just tell them, look, you violated the agreement, and pow, here is what you get for it, and hit them between the eyes. It seems that we have proved dumping. We have got an agreement that everyone knows has not been honored by them. We have tried to enforce it, and I think we need to show them we mean business. Until we do that—this is where you have to distinguish—nothing will happen. There is a big difference be-

tween talk and action, and I have seen a lot of talk. I have seen a lot of harsh words. I have seen no action.

Mr. PEASE. Thank you very much.

Chairman GIBBONS. Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman.

Just one brief question. I want to pick up Mr. Pease's first point and direct it to Mr. Finnigan and Mr. Howell.

Your associations haven't made a decision yet, so let me ask you for some individual reactions. I think you were here when Mr. Galvin testified. I just wanted to read you one sentence that gets at one of the nubs of our work and of the issue. He says,

I know of only one vigorous consistent consequential pressure that can be the convincing motivator to move the Japanese to solve their problem and ours. That is a plan for annual surplus reduction goals for countries deemed to have excessive trade surpluses with the United States.

So his comment isn't applied only to Japan. I think we have to be careful in our approach to this in the language that is used. We are talking about a more general condition.

What is your reaction to that? Essentially, what Mr. Galvin is saying is that the way we are approaching it, we are nibbling ourselves to death.

Mr. FINNIGAN. Well, I might comment, for my own company, and for many companies, I believe in AEA, that equal access is a very big problem for us, and it isn't just Japan; it is Western Europe, for us, for many AEA companies more than Japan. We have spent a lot of time here today talking about the problems with Japan, but we really don't have access in many parts of Europe, and we have competitors—my own company and other AEA companies—we have competitors in France, in England, other parts of Europe, who do pose a real problem for us in that they have very free access to our markets here in the United States. We do not have access, equal access, to their markets.

Mr. LEVIN. So Mr. Galvin's point that without annual surplus reduction goals, a general framework to go along with specific provisions strengthening 201 and 301 and others—what is your individual reaction to his salient point? There has to be a general framework, he is saying, as well as strong specifics.

Mr. FINNIGAN. Well, I am not able to comment on very specific goals there except—

Mr. LEVIN. Just the concept of goals.

Mr. FINNIGAN. Conceptually, I believe we could solve the problem by ultimately bringing about the end of all import duties, both here and in other countries, such as the Common Market and Japan, for products that electronics instrument companies make here in the United States. I believe if that were done, we would have access to their markets, and I believe that we would see sizable—and I would not care to put a particular number on it—we would see a sizable increase of our own market share in the countries of Western Europe and Japan.

Mr. LEVIN. Mr. Howell?

Mr. HOWELL. This is my personal reaction to your question.

Mr. LEVIN. That is what I am asking.

Mr. HOWELL. Fine.

My thought is, if there were annual surplus reduction goals, that it is important they be based or linked to mercantilist practices by the country in question. In other words, if a country has its market open and doesn't give subsidies or anything else of that type, and has a surplus, I don't think that we necessarily need to set a goal for them.

On the other hand, I think for countries that practice mercantilist trade, and there is no other way to do it, that that is something that should be considered.

The caveat I would have, though, is it ought to be done in a way that is very carefully tailored to get at the problem, to get at the specific sources of mercantilist practices, and also to do it in a way that doesn't injure or destroy segments of U.S. industry inadvertently. I think that is doable. I think it can be done. I don't think it is something that is impossible.

As far as sections 201 and 301, we don't bring 201 cases, and hopefully the semiconductor industry is not ever going to be in a position where they have to bring a 201 action. As for section 301, I think there are changes that could be made there. For example, I think the problem of targeting could be dealt with more expressly and explicitly in 301 than it is under the current law.

Mr. LEVIN. Thank you.

Thank you, Mr. Chairman.

Chairman GIBBONS. Let's see.

Mr. Pease?

Mr. PEASE. Thank you, Mr. Chairman.

I would like to make one comment before the panel leaves, particularly before Mr. Parkinson leaves.

It seems that as we consider this trade bill, we ought to pay particular attention to Mr. Parkinson's testimony. I was astounded to have him report that in 1984 his company earned \$29 million on \$87 million worth of sales, and 2 years later the same company lost \$34 million. It seems that something is dreadfully wrong.

If you are an efficient producer, which you certainly appeared to be in 1984, your management couldn't have gone to hell in a 2-year period. It is hard for me to believe that the Japanese were not selling 64K semiconductors in 1982 and 1983 and 1984, when you were profitable.

Pretty clearly, what happened was they started cutting their prices; and, as you say, you brought an antidumping case, and the ruling was in your favor, and there was a finding. That is a problem which needs to be addressed, and I don't think that we, in the guise of being in favor of an open trading system or free trade, can sweep that under the rug and not deal with it one way or another.

We can argue which is the best way to deal with it, whether we ought to go this way or that way. But I certainly hope that we will not during these hearings fail to deal with it. There is a serious problem there. If it happened in semiconductors, it can certainly happen in a lot of other areas. And somehow or another we need to address that.

Thank you.

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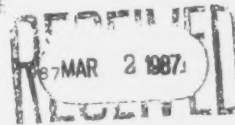
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MAR 2 1987

SUBCOMMITTEE ON TRADE

February 23,

The Honorable Donald J. Pease
United States Representative
Washington, DC 20515

Re: Trade

Dear Mr. Pease:

I appreciated the tenor of your questions and comments during the hearing on Friday. As you may recall, I represented Micron. A copy of my remarks are enclosed for your consideration. One thing not included in my written remarks was the suggestion our Board has that a penalty of \$.25 be imposed on 64K DRAMS, \$1.00 on 256K DRAMS and \$4.00 on 1 Meg DRAMS for one year, to punish the Japanese for the intentional violations of the trade agreement that have occurred since it was signed last August.

Further, you commented that the losses we incurred following the earnings of \$30 million on \$84 million in sales of \$87 million are unlikely to be attributable to uncompetitiveness or management changes. I can assure you that our management remains the same. We have had stability despite the onslaught of this foreign dumping. Competitively, Micron made headlines initially by producing the smallest 64K DRAM. The chip we make is now 1/2 the size of any Japanese producer, so we feel certain that we have the lowest cost. We are now also producing the smallest 256K DRAM, and expect to introduce shortly the smallest 1 Meg DRAM. This gives us a sizeable cost advantage, and explains why we were so upset when we saw the Japanese selling below our cost. We felt it was simply impossible that they could be making chips for those prices, given the large die sizes that they are making. Based upon our success in the dumping action at the International Trade Commission, I believe it is conclusively proven that the Japanese have no competitive or cost advantage over Micron, and in fact operate at a significant disadvantage. They have simply out-muscled us with deep pockets and targeted over-capacity. Their strategy has worked and driven out Mostek (the leading producer over the last decade), National Semiconductor, AMD, Intel and Motorola, all of whom no longer make their own 256K DRAM. Motorola is now packaging a 256K DRAM produced by Toshiba.

We unequivocally support the Gephardt amendment. In concept, it is the only one that puts "the ball in their court." As long as we continue only to slap their hands each time they violate our laws, you will see an ever widening problem vis a vis our trade with Japan. I am enclosing a newspaper article which indicates that we have lost the battle in electronics in virtually every category, and we are net importers of Japanese electrical goods in virtually every category. In the largest component market of DRAMS, the Japanese control 85% of the market.

We also favor a detailed study by the International Trade Commission on the competitive disadvantages (and defense problems) caused by losing DRAM and other semiconductor production in the United States. The ITC has followed the American declining position in DRAMS for over 10 years.

If I can ever be of further assistance, such as with further testimony or consultation with you and any member of your committee, please let me know. We appreciate your focus on this issue.

Very truly yours,

Joseph L. Parkinson

2-20-87

Electronics Trade Deficit For U.S. Grew 49% in '86

By a WALL STREET JOURNAL Staff Reporter

PALO ALTO, Calif.—The American Electronics Association, adding more grist to the whirring competitiveness mill, estimated that the U.S. world-wide trade deficit for electronics products increased 49% to \$13.1 billion in 1986 from \$8.8 billion in 1985.

The U.S. electronics trade deficit with Japan alone, meanwhile, climbed 17% to \$20.4 billion from \$17.5 billion.

The 2,800-member trade group said the U.S. trade balance with the world was negative for all industry segments except for computers/office products and instruments. Even in these two categories, however, U.S. producers' positive balance fell 50% and 13%, respectively, during the past year.

J. Richard Iverson, president of the trade group, blamed the "strong push" into the U.S. market by Pacific Rim countries for what he called the most alarming aspect of the new trade-deficit figures: their rapidly accelerating rate of growth.

With Japan, not one product segment showed a trade surplus, the association noted. In particular, the deficit for computers/office products with Japan widened 37% last year to \$5.2 billion from \$3.8 billion in 1985. Moreover, the negative trade balance with Japan in the area of electronic parts, including semiconductors, grew 13% to \$3.4 billion from \$3 billion.

Chairman GIBBONS. I want to thank the panel. I appreciate the urgency of your testimony, and we will pay close attention to it. Thank you very much.

Chairman GIBBONS. Our next panel is composed of the Motion Picture Association of America and the Recording Industry Association of America, the Association of American Publishers, of which Jack Valenti is going to be the spokesman today, and Nova Technologies, Inc., Mr. Austin. Mr. Austin, your Congressman, Mr. Pickle, and I are good friends. He is unavoidably out of town today. He wanted me, particularly in his behalf, to welcome you here.

There are few members of this committee that pay as close attention to trade matters as Mr. Pickle. Despite that, he carries a heavy burden in other areas on this committee.

Mr. Valenti, I know your service to this country goes way back, here in Washington, to the early sixties. Every place I go around the world I see your products. We are interested in your testimony, Mr. Valenti. Because of your age and dignity, we are going to ask you to lead off.

STATEMENT OF JACK VALENTI, PRESIDENT, MOTION PICTURE ASSOCIATION OF AMERICA, AND ON BEHALF OF THE INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE

Mr. VALENTI. You don't mind if I take the dignity and leave the age off, do you?

Chairman GIBBONS. That's right.

Mr. VALENTI. Thank all of you. I am speaking today for not just the movie industry, but on behalf of the International Intellectual Property Alliance, of which MPA is a founding member. This alliance is composed of really seven major trade associations with crucial and indispensable interest in intellectual property. They have computer software and services, American film marketing, American publishers, computer and business equipment manufacturers, national music publishers, American book publishers, recording industry and the MPAA.

So I am really representing the entire American copyright community today. I can begin by saying I think we are all agreed that at this moment in our national life, we are choking, and there is very little remedy in sight. In 1986 I don't have to tell this committee we had about \$175 billion or more in trade deficits and for the first time in our history we owe more to other countries than they owe to us.

We are a debtor nation. We may quarrel about many things in politics, but one fact is really shielded from the awkward effusions of naggers and naysayers, and that is that you can't live physically free for very long when you have got a twin-headed vise of trade deficits and debtor status that are squeezing your economic wind pipe.

We are either going to break the hold this vise as on our necks or we are going to find ourselves collapsing in the ruins of what was once a splendid economic industrial and creative base. If that sounds apocalyptic, it is meant to be.

How you start to cure these trade ailments, and I am talking to experts. I am going to give you some modest suggestions that con-

cern some of the desperate problems that we confront. Foremost, we have got to cleanse ourselves of every sliver of lethargy about quality and cost. We have to freshen our competitive spirit and everybody knows that. So wherever our goods are sold, they are the best in their class.

I think a lot of individual U.S. companies are already examining their past mistakes, the butchery, if you will, of wisdom and foresight that allowed the excellence of our product to slide backward and our costs to become unwieldy. Today I believe most U.S. companies are canonizing quality with a disciplined hold on cost, and that is the way it ought to be.

But there is another way that we can go to the future, and I am particularly referring now to those American enterprises who are ready now to compete successfully with the best any nation has to offer. We can do it. We can set our course, and we can get results fast. How do we do that? Demand that other nations whose businessmen move with robust freedom across our terrain to harvest sales and investments match that hospitality with the same kind of business movement in their countries that they have in our markets.

Absent that singularly simple reciprocity, we apply with surgical skill stern retaliation pressures. You keep those retaliations in place, not forever, but until the moment when that offending nation dismantles its market barriers to our businessmen, and then we get rid of them ourselves.

Both of our markets are then freely accessible, and both of us benefit. I just can't see how anyone would call that unfair. It is also this. Request other nations to protect in their marketplace the intellectual property of Americans as we protect that which belongs to their nationals. Intellectual property, Mr. Chairman, is a kind of a heavy phrase. What it really means is books and recordings and computer software and movies and television, everything that is the fruit of the creative mind, much of which flies on gossamer wings and is very fragile.

None of these creative works want to do any more than compete in a marketplace anywhere in the world, no more and no less. But creative works, as you have known, can be easily copied, pirated, counterfeited and too often—and I can bear personally with it to this—too often in other countries are protected with lethargy and slackly formed endorsement of copyright laws, if they exist at all.

Lacking such protection for American creative property, we have got to set loose the same surgically formed retaliations. Here, these are three recordings. These are absolute fakes, counterfeit, the Bee Gee's, Billy Squire and Helen Reddy. Somebody stole them. Somebody recorded them, and they are selling them cheaply.

Of course, they can sell them cheaply. When you have no investment in whatever it is, you steal, you can always sell it cheaper than the fellow who owns it. Here are counterfeit packages in which video cassettes, prerecorded cassettes, have been stolen. I just returned from Japan where more than \$200 million at retail is being lost to American producers because of stolen goods and thievery.

I visited over a dozen video shops in Tokyo where blatantly 100 percent of every video cassette in there is stolen. Of course, they

can sell them for 300 yen or whatever it is, \$1.50, because it is a stolen piece of merchandise. Here is a famous book by Mr. Lee Iacocca. This book was stolen in the Far East, and then sent around the world at very cheap prices.

Now, Mr. Chairman, my heart bleeds because this is all nice for us to say it, but it is like the fellow who talks about war, but he is has never been wounded, or the fellow who has talked about being mugged, but never been mugged. I have been mugged, Mr. Chairman. Here is my book. This is, as the Chinese letters tell you, printed, assembled and sold in Taiwan. I have a personal stake in the protection of intellectual property abroad.

Chairman GIBBONS. Both of us would feel flattered if anybody stole one of ours. I can understand the pocketbook squeeze, Jack, but—

Mr. VALENTI. As Mr. Lincoln once said, "If it wasn't for the honor, I would just as soon walk." but what I am talking about is to match market environments. I don't believe that is drawn from the darker labors of political supervision like Smoot-Hawley tariffs or restrictions or quotas or anything like that. That is protectionism, and those of us in this business want no part of protectionism.

We are opposed to tariffs, quotas, restrictions. What we do believe in is a golden rule of trade which says what others do unto you, do unto them until what you are doing unto each other is fair and right.

Now that is the golden rule of trade. The U.S. trade Representative—by the way, I think one of the few agencies in this agency-ridden town that with a small professional staff probably yields more cost benefits than any other similarly based Government body, and I can't applaud them enough. I wish they had triple the people they have over there.

They have compiled a thick catalog of those countries who build unscalable trade cliffs and who devote flabby, loose-fibered protection to creative property in their country. This catalog of some 40 countries is commended reading to those who live serenely in an illusionary world that is unattended by inequity and imbalance.

As long as these countries who merrily dance the minuet of ascending trade surpluses with us believe they are immune to any sort of rebuke, however mild, they are going to continue doing what to them is a most cheerful state of affairs. They seal off their markets, or baffle with ingenious hedgerows the attempts to Americans to move through their populations with the same freedom that they move through ours. It is a most fortunate future they face because they are satisfying a local constituency, nothing better.

Now, we find ourselves, in the meanwhile, shedding that which we cannot sell or protect abroad, and then we sit upon the ground and tell sad stories of the Department of Trade.

What will we retrieve from what we have so far lost? Best estimates are that if we had market access in other countries to the ample degree that they possess in ours, and if we could be assured that other nations would apply to the protection of our creative property the same kind of resolute shielding that we give to theirs, we can turn this trade deficit around by several billions of dollars like that.

A falling U.S. dollar, I don't have to tell many of you who are economic experts, is not without risk. A shrunken dollar makes us poorer, and it does invite inflation. True, it tends to decrease the amount of foreign goods sold in this country, but it has no effect at all in dismantling the lattice work of barriers, restrictions and a dense bureaucratic morass that effectively keeps American products from gaining entry into foreign lands.

What is required for a future that is far less cheerless than our recent past is to construct legislation that will firmly and convincingly—and I use those words deliberately—give American products access to foreign countries that are now closed or restricted and to protect our property.

We have been working with Congressman Downey and his staff, and I hope that it is possible that he might, alone what some of his colleagues, be able to introduce legislation that would fill the gaps, the gaps that now exist in our trade legislation. Similar legislation has been introduced in the Senate by Senators Cranston, Wilson, Mitchell, Heinz, Lautenberg, and Wallop.

I am not going to take up your valuable time to tell you the specifics, but if you have any questions I will be glad to answer them. Let me finish with this call. The American creative community that I represent today can compete head to head with any nation's best, but to compete we have got to have entry and to market our wares we have to be protected.

I think the loser is the American public, for our products create a surplus balance of payment. I can certify that is an uncommon asset. It has been written in the ancient times that the Greeks imprisoned in the caves of the Cyclops lived there very quietly, while they were waiting to be devoured. Perhaps we will be less tranquil and not so accommodating in this modern world. Thank you.

[The statement of Mr. Valenti follows:]

STATEMENT OF JACK VALENTI, PRESIDENT, MOTION PICTURE ASSOCIATION OF AMERICA

Mr. Chairman, Members of the Committee, I welcome this opportunity to appear before you this morning to share some of my thoughts regarding the serious problems faced in the international marketplace by some of America's most competitive industries.

I speak not only for the Motion Picture Association of America but also on behalf of the International Intellectual Property Alliance (IIPA) of which MPAA is a founding member.

IIPA is an organization of seven major trade associations representing companies with significant interests in intellectual property. They are the Motion Picture Association of America; the Recording Industry Association of America; ADAPSO: The Computer Software and Services Industry Association; the American Film Marketing Association; the Association of American Publishers; the Computer and Business Equipment Manufacturers Association; the National Music Publishers Association. The members of these associations include virtually the entire U.S. copyright community.

At this moment in our national life, many of our nation's most competitive industries are choking. There seems to be small remedy in sight.

In 1986, our trade deficit reached \$175 billion and more. Moreover, we are today for the first time in our history a nation that owes more to other countries than is owed to us.

We may quarrel about many things. But one fact is shielded from the awkward effusions of naggers and naysayers: We cannot long live fiscally free when a twin-headed vise of trade deficits and debtor status squeezes our economic windpipe. We either break the hold the vise has on our necks or we will find ourselves collapsing in the ruins of what once was a splendid industrial and creative base. If this sounds apocalyptic, it is meant to be.

To illustrate the barriers which confound the foreign earnings of U.S. copyright industries I will catalogue but a few of the restrictions that our trading partners have placed in their paths.

The U.S. motion picture industry faces a wide variety of trade barriers and ineffectual copyright laws around the world. Together they retard foreign earnings and threaten to reduce the \$1.1 billion net trade surplus earned by the U.S. film industry each year.

Access to foreign markets by U.S. film production and distribution companies is severely hampered by import duties and tariffs, import quotas, screen quotas, and discriminatory regulations aimed at protecting local film producers.

At the same time inadequate or ineffectual copyright laws encourage rampant piracy.

In India, for instance, U.S. motion picture companies must operate under a special agreement with the Indian Government which gives regulatory control over their activities to a competing film distribution organization which also happens to be a government-operated monopoly. This means U.S. film distributors are subject to endless "red tape," heavy fees used to subsidize the government's film distribution activities, strict remittance restrictions and excessive taxation. On top of all this, they are required to make interest free loans to the government.

In addition, U.S. film companies are excluded entirely from the booming Indian home video market. As a result, virtually every videocassette of a U.S. motion picture in India is pirated; it's hard to find a legitimate version in the entire country.

Losses from book piracy in just ten countries surveyed by the Alliance in 1985 amounted to over \$400 million. Forms of piracy include commercial reprinting of textbooks, reference and trade books, unauthorized translations and, in many cases, massive commercial photocopying. U.S. book publishers trying to do business in these countries, including the selling of low-cost student editions, for example, find it impossible to compete with pirates and are often forced simply to withdraw from the market. Countries such as Taiwan and Singapore have found piracy to be so lucrative that they export their pirated editions throughout the third world, disrupting the existing markets which U.S. publishers have worked for years to create.

Losses from what has been described as "epidemic" piracy of computer software are established at \$35 million annually in Brazil alone. It has been reported that pirates often give away 5 to 10 software programs with a pirated computer, and throw in pirated computer books and manuals for good measure!

Indonesia, which affords virtually no protection to U.S. works, has become the world's major exporter of counterfeit audiocassettes. Total Indonesian exports in this pirate business are estimated to be between 30 and 60 million units annually. These pirate cassettes are actually exported under licenses issued by the Indonesian government!

We must take two important steps to remedy this kind of injustice.

First, demand that other nations, whose businessmen move with robust freedom in our market to harvest sales and investments, match that hospitality with the same freedom of business movement in their markets. When other nations do not provide that singularly simple reciprocity, we must apply with surgical skill, stern retaliatory measures. Then, keep those retaliations in place, not forever, but until that moment when the offending nation dismantles its market barriers to American companies. Once their market is as open as ours, we should withdraw our barriers to them. Both of our markets are then freely accessible. Each of us benefits.

Second: Request other nations to protect in their marketplace the intellectual property of Americans as we protect that which belongs to their nationals.

Intellectual property is a rather heavy phrase for the fruits of the American creative community: books, computer software, films, pharmaceuticals, high-tech electronics, material, home video, music and sound recordings. None of these creative works asks for anything more than the right to compete fairly everywhere in the world, no more, no less. But creative works can be easily copied, pirated, and counterfeited. Too often creative works are protected in other countries with lethargy and slackly formed enforcement of copyright laws, if they exist at all. Lacking such protection for American creative property, set loose the same surgically formed retaliations.

The United States Trade Representative (USTR) is one of the few agencies in this agency-ridden town that with a small, professional staff probably yields more return to the taxpayers than any other similarly based government body. To its credit, USTR has compiled a thick catalogue of those countries who build unscalable trade walls, and who devote flabby, loose fibered attention to protecting the creative property of Americans in their land. This catalogue of some forty countries is commend-

ed reading to all those who live serenely in an illusionary world untended by imbalance and inequity.

So long as those countries who merrily dance the minuet of ascending trade surpluses with us believe they are immune to any sort of rebuke, however mild, they will persist in what to them is a most cheerful state of affairs. They seal off their markets, or baffle with ingenious hedgerows the attempts of Americans to move through their populations with the rousing freedom they move across our terrain. It is a most fortunate future they face, and a most satisfied local constituency they serve. And we find ourselves shedding that which we cannot sell or protect abroad, while we sit upon the ground and tell sad stories of the death of trade.

What would we retrieve from that which we have so far lost?

Best estimates are that if we had market access for our products in other countries to the ample degree they find so seductive in ours, and if we could be assured that other nations would apply to the protection of our creative property the same resolute shielding we provide theirs, we could turn the trade balance upward by several billion dollars.

A falling U.S. dollar is not entirely without risk. A shrunken U.S. dollar makes us poorer than we were, and invites inflation. True, it does tend to decrease the amount of foreign goods sold in this country, but it has no effect in dismantling a latticework of barriers, restrictions and a dense bureaucratic morass that quite effectively keeps U.S. products from gaining entry into foreign markets. There is no single answer to the problems of closed markets and piracy that we face overseas.

The members of the Intellectual Property Alliance strongly support legislation to address problems of piracy and market access.

First, we must fill a gap in the U.S. trade laws by adding a provision specifically directed at piracy of American intellectual property in foreign markets. There is already a provision in U.S. trade law, section 337 of the Tariff Act of 1930, which regulates the importation of pirated products into our own market, but there is no counterpart directed at foreign markets. Although in 1984, Section 301 of the Trade Act of 1974 was amended to address piracy, the principal focus of Section 301 remains unfair trading practices that violate the GATT and other trade agreements. There are also various statutes governing the importation of unfairly traded goods (including the antidumping law and the countervailing duty law). We need parity for intellectual property with trade laws specifically directed at piracy and market access.

Second, trade legislation should not emphasize foreign import barriers that violate the GATT at the expense of the types of import barriers that uniquely affect companies that rely upon intellectual property protection. Unfortunately, most of these import barriers do not fall within the scope of the GATT. (Although the commitment to negotiate intellectual property issues in the Uruguay Round is a major step in the right direction we are still years away from an uncertain outcome.) For this reason many of America's most competitive industries need a provision of U.S. trade law specifically designed to open foreign markets, or a special set of amendments to section 301.

Third, it would be extremely helpful if the Committee would build upon the intellectual property protections already in the Generalized System of Preferences and the Caribbean Basin Initiative, to open foreign markets and combat intellectual property piracy. These provisions can be strengthened to make them much more effective than they already are.

Legislation of the sort I have described fills an important gap in the structure of the U.S. trade laws, it would strengthen the hand of U.S. trade negotiators in opening foreign markets, and it should provide the tools necessary to combat piracy overseas.

I understand that legislation may be introduced in the House of Representatives to accomplish these goals. Similar legislation has already been introduced by Senators Wilson, Lautenberg, Heinz, Cranston, Mitchell and Wallop, the Anti-Piracy and Market Access Act (S. 335). I urge your support for this legislation. I also offer your Committee my assistance and the assistance of others who struggle to protect the Intellectual Property rights of the American individuals and industries. We are eager to work with you and your staff to address these concerns.

There is broad consensus on what our problems are, and we have received support and encouragement from our friends in both the Congress and in the Administration. But the time has come to go beyond our activities of the past, and redouble our efforts in the international trade arena. Statutory provisions of the sort I have outlined here this morning would be a giant step in this direction.

Chairman GIBBONS. Mr. Valenti, we can understand how you could even capture the attention of someone as dynamic as LBJ. Now from Nova Technologies, another Texan, Mr. Robert R. Austin.

**STATEMENT OF ROBERT R. AUSTIN, EXECUTIVE VICE
PRESIDENT, NOVA TECHNOLOGIES, INC.**

Mr. AUSTIN. Thank you for the opportunity to come before the committee today. What I have prepared for you is a few pages here with an introduction and an overview and also some literature on our product. One of the important things you will see is our sales history. We began in 1982 and you can see the effects of foreign companies and counterfeits on our Austin-based business.

Within the next few weeks, we have to make the decision whether to leave Austin and move our manufacturing facilities to Mexico. We are being forced to do this because of counterfeit and foreign copies of our Austin made product being sold freely here in the United States even though we have won four Federal lawsuits to shut down counterfeiters and foreign-copy sellers of our products.

We have already had to lay off approximately 70 percent of our staff, and these people are vital to the Austin economic situation. Our manufacturing is subcontracted to another Austin firm, and they have had to reduce staff used to assemble our product from 28 to 5 people, also vital to Austin.

The upsetting thing to us is, while we have had to cut staff and impact their families' financial security, the foreign counterfeiters and copiers are selling their products, blatantly, across the United States and even right down the street from us in Austin, Tex. At the same time, our company is being denied the right to sell our U.S. manufactured products in several countries overseas by the U.S. Department of Commerce and the Department of State.

We have attempted to work within the United States system, and frankly, it isn't working in the best interest of American business. We have exhausted all avenues except soliciting the support of our public officials who should be concerned about the welfare of not only their constituents, but Americans in general. We need your help.

Nova Technologies is an Austin-based company which manufactures nonlethal electronic defense devices used by local, State, and Federal law enforcement agencies and private citizens for self-protection. We are formally requesting your help in fighting the battle against foreign counterfeits and foreign copies of our Austin, Tex. made products.

Nova Technologies is the developer and manufacturer of the Nova R-5000 nonlethal electronic defense device which has become internationally known as the stun gun. We developed the product in late 1982 and began actively marketing the XR-5000 in 1983. Nova is the exclusive owner of U.S. Patent Number 4,162,515, which covers our products, and we are exclusive owners of Trade-marks Nova and XR-5000. We are the sole domestic industry which manufactures this particular type of product. In 1985 we began experiencing an influx of counterfeit products and foreign

copies of our Nova XR-5000. This influx of foreign counterfeits and copies has and continues to severely damage the stability of our company.

Our monthly sales have dropped from a peak of 18,500 units in 1985 to a monthly average of 1,918 units in 1986. Our staff size has been cut back from a peak of 38 to a current level of 10. Our product is assembled by another Austin company, and it has had to reduce its staff employed to assemble our product from 28 to 5.

Nova has tried to fight the counterfeiters and foreign copy sellers through our Federal court system. Nova has filed four Federal lawsuits against six U.S. companies which sell foreign counterfeits and copies of our products in the United States. We have won all of these lawsuits, with the latest being Case No. 85-6747-CIV-KEHOE U.S. District Court, Southern District of Florida. Even though we have been awarded damages and attorneys' fees, we have been able to collect very little. In the Florida case, our attorneys' fees alone were \$87,000, and we have been able to collect nothing even though the counterfeiter produced records showing he made over \$1 million selling foreign copies of our unit in the United States.

Even after winning the above case in Florida, we now have a Federal lawsuit in California filed against us by a company that is selling the same foreign product we won against in Federal court in Florida. We made a buy on this company as legally required, and have been trying to get a meeting with the Federal judge in Florida to get an injunction to shut this company down. To date, we have been unable to arrange a meeting. The California company has taken advantage of this delay by filing on our firm in California. We now have to fight a case in California which should never have been allowed to be brought against us.

We urgently need your help. Speaking frankly, we don't have the financial resources to continue to fight the counterfeiters and foreign copy products in our U.S. legal system. We have tried many approaches to get help from our Federal Government and to date have received none. To the contrary, we continually have obstacles put in our path.

We have been the victim of our Federal court system. We are still waiting on final judgment in the Florida case and continue to have foreign products being sold which we won against in other Federal lawsuit cases—U.S. Customs departments, who advise they can't do anything to confiscate or stop counterfeit products crossing our borders; the Department of Commerce, delays in awarding export license up to 10 weeks, and in the case of South Korea, denying our right to sell products there while in fact South Korea can copy our product and documents and sell in the United States freely; the Department of State, which decides that South Korea may treat prisoners too brutally and, therefore, denies our company the opportunity to sell our product to law-abiding citizens of South Korea and, therefore, denies them the right to have a product for self-defense which is proven to be medically safe and has never caused a serious injury.

We have experienced nothing but frustrations, amazement and financial loss in trying to work within the system established by our Federal Government. Each department passes the buck to an-

other department to make the decision on who should have responsibility. The system is simply not working to the benefit of Americans.

We find the same lack of support from our Federal Government when pursuing international markets. To date, we have the Japanese Government hindering and impeding our Japanese distributor in selling Nova's product in Japan. In the meantime, Japan has developed a product similar to the Nova XR-5000 and is selling it freely. The Taiwan Government continues to allow manufacture of counterfeit and foreign-copy products in Taiwan by companies which we have won against in U.S. Federal court. West Germany is preventing the sale of our product in Germany but allows a similar German product to be sold.

South Korea is manufacturing a product similar to the Nova XR-5000 and selling it freely in the United States while we can't sell our product in South Korea. Does the system look like it is working on behalf of Americans?

Our only hope at this time is that you, our public officials, can take up the fight with us. We are available, at your convenience, to answer detailed questions you and your staff may have on our company, the products we manufacture and the problems and obstacles we face with counterfeit products and foreign copies. The counterfeit products coming into the United States from Taiwan and South Korea are, we believe, a violation of not only our patent but also the Federal statute known as the Lanham Act.

Specifically, we make the following recommendations to the committee: Authorize the Customs Service to take action against counterfeits based on proven evidence of counterfeit imports—even in the absence of an ITC order; strengthen U.S. Customs Service authority to act against counterfeit imports under the patent import survey program; authorize the establishment of a fund to provide partial compensation to small entrepreneurs who successfully bring section 337 cases. Perhaps funds could be gathered through punitive duties already collected by the U.S. Customs Service under existing unfair trade laws; take a tougher stance on trade relations with countries which restrict or impede the sale of U.S. products in their countries while at the same time allowing the manufacture and sale of their products which infringe on the patent of U.S. products. Taiwan, South Korea, and Japan are countries where we have had the most problems.

As you will see, the next sheet here in the handout is our sales history. I wanted to show you some samples. These are the prototypes and the actual units we developed. As the company goes throughout the process of developing a product, to this being our final product, which is a Nova XR-5000.

This is the Taiwan version, which I think you can see is identical, but slightly larger, because they must have taken our unit to do the mold to make their unit. The Lanham Act covers the shape of the unit, and the four lawsuits we identified have been on the Lanham Act.

If you permit me, this unit gives off a sound which is our patent. Our patent is for a hand-held electronic device which gives a visible and electronic spark display. We believe that aspect of it, I think, for instance, infringes on our patent. Our products here I

have shown to you. These are Taiwan products here. This is a South Korean product here, and this is a Japanese product here.

That completes the statement I would like to make before the committee.

[Attachments to the prepared statement follow:]



SALES HISTORY

Summary

1982	235
1983	1,652
1984	53,176
1985	110,270
1986	23,023

January	1985	11,383
February	1985	11,043
March	1985	13,620
*April	1985	*18,519
May	1985	14,978
June	1985	7,097
July	1985	10,655
August	1985	3,515
September	1985	6,841
October	1985	4,426
November	1985	3,949
December	1985	4,244

 110,270

1985 Average 9,189/month

* Counterfeiters hit U.S. Market

January	1986	3,452
February	1986	456
March	1986	1,017
April	1986	4,606
May	1986	1,427
June	1986	1,932
July	1986	2,032
August	1986	1,346
September	1986	1,902
October	1986	1,601
November	1986	1,722
December	1986	1,530

 23,023

1986 Average 1,918/month

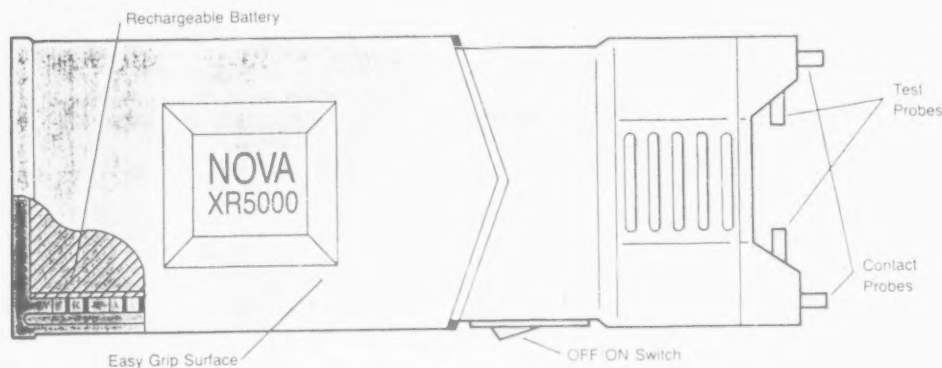


XR-5000 STUN GUN

At one time or another we have all experienced the "chill" of being in a potentially dangerous situation and, worst of all, not being able to protect ourselves. Even if the law allowed everyone to carry a gun, how many of us could make the decision to take someone's life? The NOVA XR-5000 "Stun Gun," the ultimate **nonlethal** self defense weapon, gives you the option to protect yourself without worrying about the possibility of having to take a life. Guarantee your right to feel confident, secure and safe—carry a NOVA XR-5000 "Stun Gun."

A THREE-TO FIVE-SECOND JOLT FROM THE NOVA XR-5000 WILL DROP A POTENTIAL ASSAILANT TO THE GROUND, RENDERING HIM OR HER WEAK, DAZED AND PASSIVE!

- **NONLETHAL**
- **ACCEPTED AS SAFE, NONLETHAL AND NONINJURIOUS BY THE MEDICAL AND SCIENTIFIC COMMUNITIES**
- **UP TO 45,000 VOLTS OF ELECTRICITY**
- **FITS IN YOUR HAND**



SIZE: 6 1/4" x 2 1/4" x 1"

WEIGHT: 7 1/2 oz. without battery, 8 oz. with battery. Constructed of non-reflective impact-resistant ABS. Incorporates a spring-loaded safety rocker arm switch.

OPERATION: To activate the XR-5000, one must compress the trigger switch. To deactivate the unit, the trigger is released. The unit must be applied to the suspect and the trigger switch pressed.

OUTPUT: The XR-5000 emits 40,000 to 45,000 volts but only 3 to 4 milliamps.

BATTERY: 9 volt nickel-cadmium rechargeable battery. (Do not use an alkaline battery.)

TYPES: G.E., Mallory, Rayovac, Eveready, and the new Nova (Sanyo) non-memory battery.

BASIC OPERATING PRINCIPLE: The Nova XR-5000 is based on solid state microchip technology. The unit produces an electric pulse which sends out frequencies into the neuromuscular system of the attacker and temporarily interrupts voluntary muscle control. The device does not depend upon pain, burning, or destruction of tissue to achieve its desired incapacitation effect. It uses the neuromuscular system in its natural mode to cause muscle contractions and a resulting loss of balance. When applied to a subject, the unit will key itself into that subject's neuromuscular system and will not transfer the same shock to anyone else in contact with the subject. The Nova XR-5000 was designed as a defensive tool. It fires no projectiles, therefore it is necessary to make physical contact with the object. **Suggested retail price \$69.95**

NOVA TECHNOLOGIES, INC.
13706 RESEARCH BLVD., SUITE 100
AUSTIN, TX 78750
PHONE (512) 250-1307
FAX (512) 250-5741

Check your local laws to determine the legal way to carry a NOVA XR-5000 in your area.

Chairman GIBBONS. All right. Mr. Frenzel?

Mr. FRENZEL. Yes. Mr. Chairman, I want to thank both the witnesses for their testimony. Mr. Valenti, I am glad to hear you are doing so well in Taiwan. Perhaps there is some achievement that make you so popular. You could fill us in later. As to the other book, is that one in which the author says if you give us the 170 yen-dollar, we will blow them out of the water? My judgment is that there has been no area of trade in which our country, our Government and the Congress have tried harder in than the protection of intellectual property rights in the last 18 months.

We have made it an important objective in Punta del Este. We were successful at least in putting it on the agenda for the future. We have arranged with a number of governments, Taiwan being one, Korea being another, Thailand being a third, to make changes in the laws. We are trying to do it all around the world.

As I understand it, the administration is prepared to put us in the Berne Convention which would make it easier for us to enforce our other concepts of intellectual property rights.

There is much left to do. Once we put the laws on the books, we have got to find out if they are any good. We have got to ensure that somebody enforces them. We do have a long way to go. My judgment is that this is an area where we have made some progress. Do you have any feeling about that, Mr. Valenti, or is my thought over optimistic?

Mr. VALENTI. Mr. Frenzel, there is more than a grain of truth in what you are saying. It is true in Punta del Este we got all sorts of nations to sign the intellectual property resolution.

But as we all know, between signing a resolution and doing something about it, there is a large and sometimes blurry gap. I think we are years down the future before that finally bears fruit. However, I won't quarrel with it being a cheerful first step. We have made other progress. We have noted the movie industry has negotiated very successfully with Korea. After long and exhausting negotiations, we were able, if they redeem their pledges, and I hope they will, by the end of this summer, we will have an open marketplace there.

They are putting a copyright law into effect and so is Taiwan. Taiwan has, because of long tormenting negotiations with them, relented and are collapsing some of their barriers. But one of the problems is having a copyright law, and then enforcing it. Japan, for example, has one of the finest copyright laws in the world, and it probably has, according to police experts, one of the finest constabularies anywhere in the world, first-class police operation.

Alas, however, the law and the police only recently began to coincide. I have to say that I want to commend this committee because it was a visit by Chairman Rostenkowski and Ways and Means Committee before Minister Nakasone that the problem of the theft prerecorded movies was brought to his attention. The Prime Minister, with alacrity and great clerity, said, "I will do something about it."

I have just returned from Japan and there has been marked improvement, but there is much more to go. So I commend this committee for doing what was great. What is needed, Mr. Frenzel, though, is some kind of an institutionalized piece of legislation

which we are hopeful that Congressman Downey will see fit to introduce. That will allow us, when there is a gap between enforcement and copyright law, to be able to go in and say please do something. Let's talk about it, and then after negotiation, if they still don't do what is required to be done, then we have some surgical trade retaliation that we can apply.

I must confess in the 20 years that I have been negotiating around the world for films and television, I have determined that good will is wonderful. But there comes a time when unless you can inflict a little pain on somebody, and they know it, they are not going to give up what you can't take from them.

I am not being bellicose, and I am not being belligerent, but I say it would be wonderful to have that kind of a sturdy underpinning when you are negotiating in matters of this kind. We are talking about billions of dollars, Mr. Frenzel. As I told you, we estimate at retail the lost in Japan of \$200 million.

We are losing over a billion dollars in the world just on piracy and probably another half billion on lack of market access.

Mr. FRENZEL. Thank you very much. We are not unmindful of your needs, and its, of course, not only Japan where we are taking that message. That same committee took it to Thailand and to Korea and I just came back from Indonesia, and India and the Philippines and other places. We do have a lot of work to do. But I think that both the administration and the Congress have given this a pretty high priority.

I hope that we will continue to make the progress that we have made in the past. Thank you.

Chairman GIBBONS. Mr. Downey?

Mr. DOWNEY. Thank you, Mr. Chairman. Actually I think Mr. Austin may have provided us the tools to focus the attention of the Taiwanese during negotiations. If we would apply some of modern technology of the XR-5000, I think we could really rivet their minds.

Jack, let me just go through your testimony—you don't have to convince me. I have been to the same places you have been in the East that have pirated our books and our movies. I am, along with Mr. Frenzel, and I believe Mr. Gibbons, one of the last free traders left, if there is such a term. I feel very strongly that we can believe in free trade, but it is absolutely preposterous to let people violate our laws and their own laws when it comes to products we market.

I might add that is also true in the case of the Nova problem, because I have had, in my district, a company that went out of business because of copyright, trademark violations.

Chairman GIBBONS. Don't define free trade as being pirated trade.

Mr. DOWNEY. No. Thank you. It is not. I thank you for correcting that.

Jack, let me try and make something of a record here. You have alluded to it in your testimony, but what special problems do companies that rely on intellectual property protection encounter in foreign markets. You alluded to the gossamer wings. Why don't you embellish that a little bit.

Mr. VALENTI. Mr. Downey, there are two kinds. First market access. Unfortunately, most of the trade legislation that is now

intact and operating, deals with those market access violations of GATT.

Unhappily, practically all of the problems we have are non-tariff trade barriers which do not come under the canopy of GATT. That is why we need some kind of caulking in the holes that exists in the current trade legislation.

There are certain countries that can force us to drop off our films at their borders, to turn them over to native directors to distribute.

We can't get our films into the country. There are things like dubbing fees, discriminatory taxes, and quotas of all kinds—screen quotas—that they put on us under, the mistaken notion if they can suffocate and strangle American industry, their own film industry will spring forward like Athena from the forehead of Zeus.

That doesn't happen. Nonetheless we are plagued by it.

We have many problems in major countries—I won't mention their names because we are involved in delicate negotiations with them. I don't want to see a headline that says we denounced a country who we are meeting with.

These are major countries in the world, our allies, indeed with these problems of market entry, non-market trade barriers, cause enormous torment.

The other, of course, is the whole question of no copyright laws, lethargic enforcement, where the pirates can pillage the countryside knowing it is a risk-free business.

All we can do is use charm and persuasion to try to force these countries to tend to their knitting, as it were.

As I said earlier, Mr. Downey, we are free traders. We live on trade. We don't want trade wars.

We want no barriers, no tariffs in our country and in theirs. But I do believe the time has come when we have to armor ourselves with specialized weaponry, a stun gun, if you will, that we can use surgery when the need arises, and to put that weapon away when the need has disappeared.

If we don't do that, we are kidding ourselves.

Mr. DOWNEY. Let me ask you, in your experience—and you also alluded to it before, this idea that some constituencies are satisfied with the current law, why is there such resistance to eliminating intellectual property piracy in some of these countries?

Mr. VALENTI. The constituencies are broad, some of them are happy about it—well, if I had a deal where I could take Toyota cars and sell them for about one-fourth of what they cost, I would be and my constituents in this country would be really happy. When we can take our product over there and sell it for a lot cheaper than a legitimate product sells for, that is pleasing.

You are providing that country's residents with all sorts of goodies at lower prices than they can buy anywhere else, and you build up a lot of retail stores, and sell these products and make a lot of money off a stolen product. It makes the local neighborhood very happy.

Mr. DOWNEY. Do you see this trade legislation that we will write and, hopefully, pass, giving somebody like STR an effective means of focusing our attention—first the question of identification of the problem, then the negotiating process of approximately a year, and

then the specific remedies that you suggest, possibly quotas, possibly tariffs, not allowing trademark copyright of their products in our country.

Mr. VALENTI. That is exactly right. What we want to do is compress the time.

Right now we have the 301, which came out of the 1974 act, and it is not bad, it is good, but it is cumbersome, elephantine, and you have to take a long time. What we need is something that compresses time. For example:

Of the catalog of offending countries on priority, Mr. Chairman, USTR says these are the 10 most offending countries, after 30 days negotiations, begin with those 10 countries, and then you have 6 months for negotiations. At the end of that 6 months, if you are not able to persuade each other that what is on the table is useful and can be brought to the marketplace, then the USTR could then alert the President that this country is now a candidate for retaliatory action on a surgical basis.

You don't have to drop the whole load in the middle of the road. You can do it by increasing increments until finally that country says, wait a minute, we are getting hurt too much, okay, enough, we will open our markets and protect your property, and with that down come our barriers. That seems to be sane and wise and reasonable.

Mr. DOWNEY. I think so, too. My hope is that the members of the committee who were not present will agree. My guess is that they are inclined to, and I hope we can have these sorts of remedies in the legislation as it moves forward.

Chairman GIBBONS. Mr. Levin?

Mr. LEVIN. I think Mr. Valenti has described well the gist of H.R. 3.

Let me just ask Mr. Austin one question.

On the third page of your testimony, you say that the following countries are hindering or preventing the sale of your product: Taiwan, East Germany, South Korea; in the case of Japan, hindering your distributor. When you say we can't sell our product in South Korea, what do you mean?

Mr. AUSTIN. The U.S. Department of State has denied us the right to sell our product in South Korea.

Mr. LEVIN. You referred to that in your testimony. That is a decision by the State Department?

Mr. AUSTIN. Yes, sir.

Mr. LEVIN. How about Taiwan?

Mr. AUSTIN. Taiwan, it is the decision of Taiwan.

Mr. LEVIN. In what form?

Mr. AUSTIN. We have a letter from Taiwan where they have—the Taiwan companies have told us and advised us that our product is restricted in their country—this being their product, and this being our product here.

Mr. LEVIN. Does it say to you that baldly, we have our own product; or is that just the result?

Mr. AUSTIN. Here is a letter from the anticounterfeiting committee of Taiwan. It says, King JAW Ltd.—

Mr. LEVIN. Speak in to the mike so we can all hear you.

Mr. AUSTIN. Reading from the letter from the anticounterfeiting committee, it says, "This is in response to a letter"—I advised them of companies that we knew that were manufacturing counterfeit products, and King JAW was a distributor or manufacturer in Taiwan that manufactured the product. Their response back says, "King JAW has got the patent license of a personal protector for new design issued by the National Bureau of Standards in our country, whose shape looks like your product X-R 5,000."

Mr. LEVIN. So they are saying a counterfeit has the patent in their country?

Mr. AUSTIN. On a product like ours.

Mr. LEVIN. That is a double whammy, isn't it?

Not only do they give a patent to a counterfeiter, but they won't let you compete with your counterfeiter.

Mr. AUSTIN. Yes, sir.

Mr. LEVIN. Thank you, Mr. Chairman.

Mr. PEASE. I have just one question.

I wanted to welcome Jack Valenti here, very distinguished person who has been with us a long time.

My only criticism, Jack, is that you are usually so understated before you come before the subcommittee.

I have been interested in this intellectual products issue for quite some time. I have got a hand-toolmaker in my area who has shown me examples of their product precisely counterfeited, right down to the copyright, the name and all the rest, they don't have any shame at all, these people.

Talking with that manufacturer, it occurred to me at one point that it is difficult to get at the persons who are doing the counterfeiting. Often they are in another country; often they are crooks anyhow, so that you can't reach them through the ordinary channels very easily.

I was wondering whether there was a possibility of going after them from the point of view of the retailers, making the persons who wholesale or retail a counterfeit product somehow accessories to this criminal activity, and at least, perhaps, working out some notification system so you as a manufacturer could notify a wholesaler or a retailer to let you know that you are marketing a counterfeit product. We have seen it occur on your shelves, and this is a violation of U.S. law. We have to make it a violation.

That is a thought that I have not discussed very much, but I wonder if you might have any off-the-cuff opinion of that as a possible way to cut down on counterfeit sales within the United States?

Mr. AUSTIN. Yes, sir. It has been our experience—well, the way the system works now as I mentioned, we filed four law suits against six companies which sell products in the USA. The way the system works as an example, is that in April when we won the law suit in Federal court in Florida, within 3 weeks a company in California started selling us this—this product here, they started selling the same product.

Now the way the system works is I went out to the person—I operated undercover, went to California to make the buy, because you have to prove they are selling that product. Then to try to get back into Florida to meet with the Federal judge, which I have never

been able to meet him to show him the product, so my trip was useless.

The way the system is is you continually—let's say—I do have the—the company in California has sued my company as a smoke issue. The company is run by an attorney, and I maybe shouldn't be talking about it since we are under a law suit. But since he is an attorney he can file the paperwork very cheaply.

Nova Technologies have been brought to their knees. He files in California; we have to get new attorneys to work for us in California. The system is we continually have to go after the person selling.

The company in Taiwan, after we shut down a counterfeit, after we are successful in shutting down a person selling, anybody can go back to Taiwan and say, I want to sell this one—this one was called Power Zapper

You can have any name you want to put on it and sell a product. The way the system is working everyone has their day in court, I guess.

This is where a exclusion order comes in. It appears to me first of all something is wrong with a system when I have to spend \$100,000 in attorneys' fees to prove this is a counterfeit of that. It doesn't take much intelligence for someone to pick this up and say it is a counterfeit.

Why should my company, who is a small company, have to spend \$100,000 in attorney's fees for that and turn around 3 weeks from now, go through the same process again? We need a system where we can go to that retailer. That puts us in a situation now—if we go to a retailer and say you are selling a product we won against in Federal court, he has a right to go to court and say no, I am not and you have to go though the whole system again.

Mr. PEASE. Sure. How many retailers do you think are selling these products inadvertently? How many retailers do you think may respond to a notification of some kind, an information notification that they were selling counterfeit merchandise?

Is it very many or are most of them doing it as a deliberate act, know what they are doing, and will continue doing it despite any warning to the contrary?

Mr. AUSTIN. It has been our experience that—we won the case, we have been very vocal to our distributors. Two years ago, maybe we had 50 major distributors across the USA selling our products; we now have 10 of the distributors who are currently selling our product are now also selling products we won against in Federal court.

There our product, which is not an expensive device, sells for \$69.95; the counterfeit product, they use our same price many times and can sell it \$20 cheaper. We see ads routinely from our distributors, the Nova at \$69.95, or foreign unit for \$49.95.

The problem with the public, these foreign products have never undergone medical tests as ours have. They can not show documents to show medical safety.

So I am getting to the point of education, this is where we see our biggest effort is education. We have to educate people about this is a counterfeit, this is what it will or will not do, and here is our product.

Because we find education to the consumer may work but from the distributors it hasn't, because we have notified them it is a counterfeit product. It doesn't take much for most people to realize, if you have a patent and all you do is change the shape, you still have the same configuration, this unit can be many different configurations.

When we identify a copy this does not have to be that configuration. We see all of these copies they have been using the configuration. A long response again.

We find distributors still sell. There has to be some means there to punish the distributor, and the product shouldn't be here to start with.

Mr. PEASE. Thank you very much.

Chairman GIBBONS. Mr. Valenti, I know you do a great job, not only here in the United States, but worldwide in promoting our products. I want to commend you for that.

I also know that you are well-informed about the law in this area and about the practical application of it. Have you had an opportunity to examine H.R. 3, and look at the intellectual product rights provisions we have in there and, if so, do you have any views on them? Do they satisfy you, do you think we ought to go further? What is your opinion?

Mr. VALENTI. Obviously we think we have to go further, Mr. Chairman, because that is what we are proposing. What we are proposing here is to fill in some of the gaps that exist.

I think with these amendments that we are constructing that it would give us, in my judgment, based on what I know around the world, the kind of sinew the kind of backup that is needed.

Most of the time we can work this out in negotiation, I don't need to call on the weaponry of the law, but the negotiations will proceed more amicably and conclude quicker if it is known to those with whom you are negotiating that having violated the provision of access to intellectual property protection, if they don't come to some agreement there is going to be some kind of retaliatory effort, and by compressing the timeframe in which the negotiation goes on you come to conclusions that they are more acceptable.

This is based on, I guess, the hurly-burly of the marketplace, where I am sitting down with these countries day in and day out, and I know what most of them and I know that does not move them.

The kind of amendments we are suggesting and working with Congressman Downey on I believe, give a flesh and some bone and blood to the bill that will make it a lot better.

Chairman GIBBONS. We would ask you and Congressman Downey to share with us the substance of the amendment so that we can really be prepared to deal with them when we get into the markup stage.

As you know, this bill is on—so far is on a very fast track, and we want to make sure that we adequately consider the subject matter that you are working with because of our respect for you and your knowledge in the area.

Mr. VALENTI. We have our champion in Congressman Downey and all the backup that is needed and all the detail and specifics that will be required.

Chairman GIBBONS. Fine.

We will work with him, we always do. We are happy to work with you.

Mr. VALENTI. Thank you, sir.

Chairman GIBBONS. Thank you very much.

Because some of our witnesses have engagements to leave, I am going to take the liberty of just proceeding right straight on through the day with this hearing. I apologize to my members for that, but I don't know of any other way to handle it.

We now have a panel that consists of the National Machine Tool Builders Association and the Coalition for International Trade Equity.

Mr. O'Reilly, and Timothy Regan.

We are familiar with your long struggle in this area. So why don't you proceed, sir.

STATEMENT OF PHILLIP A. O'REILLY, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, HOUDAILLE INDUSTRIES, INC., REPRESENTING THE NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION, ACCOMPANIED BY JAMES H. MACK, PUBLIC AFFAIRS DIRECTOR

Mr. O'REILLY. Good afternoon. My name is Philip A. O'Reilly. I am chairman and chief executive officer of Houdaille Industries.

With me today is James H. Mack, public affairs director of the National Machine Tool Builders' Association.

We appreciate this opportunity to discuss H.R. 3, the Comprehensive Trade Policy Reform Act of 1987. NMTBA is very pleased to see that H.R. 3 clearly defines and recognizes export targeting as an unfair policy or practice that may be actionable under U.S. trade laws.

As you know, Mr. Chairman, Houdaille is all too familiar with the destructive impact wrought by foreign export targeting. In 1982, Houdaille submitted a landmark petition to the President through the U.S. Trade Representative.

We documented the official creation of a Japanese machine tool cartel and the wide variety of financial and other assistance given the cartel by the Japanese Government.

Despite strong support for Houdaille's position from many in his Cabinet, President Reagan declined to impose the requested relief. Houdaille was subsequently forced to close two plants and to sell two of its four remaining machine tool operations. Those actions resulted in the loss of Houdaille to approximately 2,200 jobs.

I remind the subcommittee that Houdaille filed its request under a then-untested provision of the Revenue Act of 1971 because there was no alternative provision under U.S. trade laws that offered a remedy to victims of foreign export targeting.

Comprehensive trade reform legislation would, therefore, be incomplete without a provision which adequately addresses industrial targeting practices by foreign governments.

As currently drafted, H.R. 3 requires that, in order to be eligible for relief under section 301, U.S. victims of foreign export targeting must provide actual or threatened injury.

We believe that, in light of the exacting definition of targeting already set forth in H.R. 3, the evidentiary difficulties faced by any U.S. industry attempting to prove the existence of targeting and the predatory nature of the practices inevitably involved in a targeting plan, proof of injury should not be required.

As a matter of fact, in order for any relief to be granted under section 301, there must be a showing of adverse impact on U.S. commerce. Therefore, a specific injury test in targeting cases is redundant and unnecessarily burdensome to affected industries.

Truly effective statutory remedies available to U.S. victims of industrial targeting must also take into account the fact that often the adverse competitive impact caused by targeting practices is not felt until after those practices have ceased. We must not permit targeting beneficiaries to continue to reap the unjust enrichment of past practices which facilitated their penetration into the U.S. market.

During last year's consideration of trade legislation, the committee adopted report language indicating that targeting, in order to be actionable under section 301, must still be in existence at the time relief is requested. However, action under 301 would not be barred, even though certain individual targeting practices may have ceased by the time the case is under investigation. This approach represents a reasonable and effective compromise and should again be included this year.

We would like to commend the drafters of H.R. 3 for recognizing that once targeting has been proven, some form of adequate relief to U.S. victims should be mandatory. The availability of an assured remedy will provide a formidable deterrent to future targeting.

Let me also comment briefly on the national security import relief provisions in H.R. 3. We are pleased to report that, pursuant to negotiations authorized by President Reagan last May, the Governments of Japan and Taiwan have agreed to limit certain machine tool exports to the United States for a 5-year period which began in January 1987.

We would like to take this opportunity to thank Chairman Rosentkowski and other members of the committee who visited Japan and Taiwan just prior to the conclusion of these delicate negotiations. NMTBA deeply appreciates the effort you made on the industry's behalf during that trip and, in fact, throughout the prolonged pendency of the petition.

Our own experience with the 232 process, riddled with pitfalls and unforeseen delays, leads us to the conclusions that the imposition of deadlines on Presidential decision-making in the future national security cases is warranted. However, NMTBA is concerned that the deadlines imposed by H.R. 3 are imprudently short.

Far from improving the position of potential 232 petitioners, such impractical deadlines may actually weaken their chances of obtaining meaningful relief—in the absence of complete information, decision makers are more likely to deny such requests.

We believe that in light of the thorough evaluation which should precede any 232 decision, the current statutory limit of one year on the Commerce Department's investigation is reasonable and should be retained.

We also recommend that the committee adopt the proposal, originally offered during last year's markup by Representative Kennelly, imposing a 60-day time limit in which the President must decide whether to restrict imports that threaten to impair the national security and a 15-day limit regarding the manner in which such restrictions will be imposed.

Thank you; we would be happy to respond to any questions.
[The statement of Mr. O'Reilly follows:]

STATEMENT BY
 PHILLIP A. O'REILLY
 CHAIRMAN AND CHIEF EXECUTIVE OFFICER
 HOUDAILLE INDUSTRIES, INC.
 REPRESENTING THE
 NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION
 BEFORE THE
 COMMITTEE ON WAYS AND MEANS
 SUBCOMMITTEE ON TRADE
 U.S. HOUSE OF REPRESENTATIVES
 FEBRUARY 20, 1987

I. INTRODUCTION

Good morning, my name is Phillip A. O'Reilly. I am Chairman and Chief Executive Officer of Houdaille Industries, Inc. of Fort Lauderdale, Florida. Houdaille is a diversified manufacturer of industrial products, including numerically controlled machine tools. I am appearing this morning on behalf of the National Machine Tool Builders' Association ("NMTBA"). NMTBA's member companies, which include Houdaille, account for approximately 60% of machine tool production in the United States. With me today is James H. Mack, NMTBA Public Affairs Director.

We appreciate this opportunity to discuss H.R. 3, the Comprehensive Trade Policy Reform Act of 1987 -- legislation which proposes a fundamental restructuring of United States trade policy. We are aware that many members of this panel -- including you, Mr. Chairman -- share our long-standing concern regarding the unmistakable state of decline which currently characterizes U.S. industrial competitiveness. NMTBA believes that a vital machine tool industry -- the core of any nation's basic manufacturing capability -- can play a critical and unique role in restoring the United States to a leading position in world commerce.

Yet the future vitality of this and other basic manufacturing industries may very well be determined by the outcome of the "competitiveness" debate -- specifically, the degree to which potent and reliable statutory remedies will be available to domestic industries experiencing genuine competitive distress. Certainly we recognize that our present competitive problems are the product of complex economic and geopolitical dynamics. We are not suggesting, therefore, that trade reform legislation represents the panacea for struggling domestic industries. But we do believe that a major overhaul of U.S. trade law and policy is an essential prerequisite to any sustained improvement in this nation's competitive posture. Above all, U.S. industries need a climate which permits them to succeed -- something that is sorely lacking from many current trade policies and initiatives.

NMTBA therefore applauds your Committee's work as a timely recognition that the time has come for the adoption of meaningful revisions in U.S. trade laws. We would now like to address our remarks to specific portions of the bill which impact directly on the U.S. machine tool industry.

II. COMPREHENSIVE TRADE REFORM LEGISLATION

A. Industrial Targeting

NMTBA is very pleased to see that H.R. 3 clearly defines and recognizes export targeting as an unfair policy or practice that may be actionable under Section 301 of the Trade Act of 1974. This recognition represents a substantial improvement over current law. Let me share with you why this is so.

As you know, Mr. Chairman, Houdaille is all too familiar with the destructive impact wrought by foreign export targeting. In 1982, Houdaille submitted a landmark petition to the President through the U.S. Trade Representative. For the first time the

Administration was asked to examine the consequences in the United States of Japanese industrial targeting. Following literally man-years of persistent effort here and especially in Japan, we were able to document policies and practices employed by the government of Japan to skew world machine tool competition in favor of Japanese manufacturers.

The full details of the unfair Japanese trade and industrial targeting practices we uncovered can be found in our petition and in later submissions we made to the U.S. Trade Representative's office. Included are hundreds of pages of official government documents in Japanese, as well as English translations, describing the official creation of a Japanese machine tool cartel and the wide variety of financial and other assistance given the cartel by the Japanese government.

We found, for example, that as part of a highly coordinated plan, the Japanese government: impeded foreign competition in the Japanese machine tool market; directly financed machine tool industry research and development efforts (at one point, millions of R & D dollars were generated by wagering on bicycle and motorcycle races); granted highly concessionary loans and special tax benefits "outside" the regular tax code; and engaged in systematic market allocation. The long-range goal of selectively penetrating and dominating key export markets, such as the United States, remained the guiding principle. No one has ever challenged the veracity of those findings.

However, despite strong support for Houdaille's position from many in his cabinet, President Reagan -- in the wake of intensive lobbying by the Japanese government -- turned down our request that the (then available) investment tax credit be denied to purchases of unfairly subsidized machine tool imports. As a result of the President's failure to impose the requested relief, Houdaille was subsequently forced to close two plants and to sell two of its four remaining machine tool operations. Those actions resulted in the loss to Houdaille of approximately 2,200 jobs.

I remind the Subcommittee that Houdaille filed its request under a then-untested provision of the Revenue Act of 1971. We chose to proceed under an obscure section of the tax code because there was no alternative provision under U.S. trade laws that offered a remedy to victims of foreign export targeting.

Comprehensive trade reform legislation would, therefore, be woefully incomplete without a provision which adequately addresses industrial targeting practices by foreign governments. As Houdaille's difficult experience illustrates, these practices pose severe competitive problems for U.S. companies, whose products may be excluded from protected home markets or unfairly displaced from third country markets and for U.S. firms who must compete here at home with unfairly subsidized imports. In addition, a serious threat to U.S. national security is posed when basic and defense-sensitive industries are, in effect, targeted out of existence.

As currently drafted, H.R. 3 requires that, in order to be eligible for relief under Section 301, U.S. victims of foreign export targeting must prove actual or threatened injury. NMTBA believes that, in light of the exacting definition of targeting already set forth in H.R. 3, the evidentiary difficulties faced by any U.S. industry attempting to prove the existence of targeting and the predatory nature of the practices inevitably involved in a targeting plan, proof of injury should not be required. Once targeting, as "measured" by the statutory definition, has been found to exist, actual or impending injury to U.S. victims should, in effect, be presumed.

As a matter of fact, in order for any relief to be granted under Section 301, there must be a showing of adverse impact on U.S. commerce. Therefore, a specific injury test in targeting cases is redundant and unnecessarily burdensome to affected industries.

We believe the approach we have suggested is appropriate in view of the fact that, under H.R. 3, U.S. retaliation is not the required response upon a finding that foreign export targeting exists. Rather, a more moderate and flexible approach is adopted, directing that mandatory action be taken by the President in order to offset or eliminate the affect of the targeting practices. (However, H.R. 3 should be amended to make clear that such action must offset or eliminate the affect on the petitioning industry.) The "heavy gun" of retaliation is but one option available to the President. Other means of addressing the problem include the negotiation of orderly marketing agreements with offending governments, compensatory trade benefits to the affected industry, or administrative action geared toward restoring or improving the industry's international competitive position.

The flexibility commendably inherent in this approach permits the President to take into account the fact that the nature and degree of the impact of targeting on or among various domestic industries will likely fluctuate. Consequently, appropriate remedies can be fashioned on an ad hoc basis under the "mandatory action" rubric.

In addition, under current definitions in H.R. 3, the actual or threatened injury requirement fails to adequately address export targeting programs which have not yet caused, or imminently threaten to cause, material injury to U.S. industries. By the time that such "statutory injury" can be documented, the industry may already have suffered irreparable competitive displacement. Thus, the burden of an injury requirement could well prove ineffective in preventing future Houdaille type cases from arising.

Truly effective statutory remedies available to U.S. victims of industrial targeting must also take into account the fact that often the adverse competitive impact caused by targeting practices is not felt until after those practices have ceased. We are aware that, traditionally, retaliation against unfair trade practices ends when the practices themselves end. But we must not permit targeting beneficiaries to continue to reap the unjust enrichment of past practices which facilitated their penetration into the U.S. market. For example, a foreign government may employ targeting practices in order to nurture the growth of one or more of its "infant" domestic industries. Most of the targeting may stop, however, once those industries reach a level of competitive maturity which permits them to then unfairly displace their American counterparts. In our view, it is appropriate that sanctions be imposed on targeting recipients and/or that compensation be provided to targeting victims in such circumstances.

During last year's consideration of omnibus trade legislation, the Committee adopted report language to accompany H.R. 4800 which provided that export targeting, in order to be actionable under Section 301, must still be in existence at the time relief is sought. However, the Report indicated that action under 301 would not be barred, even though certain individual targeting practices may have ceased by the time the case is under investigation. The Report also provided that, depending on the circumstances of the particular case, the effect of past practices may be considered in the determination of an appropriate remedy. NMTBA believes that this approach represents a reasonable and effective compromise and urges that similar language again be included -- in the bill itself or in the Report which accompanies the trade bill reported by this panel.

Finally, we would like to commend the drafters of H.R. 3 for recognizing that once targeting has been proven, some form of adequate relief to U.S. victims should be mandatory. The availability of an assured remedy will, we believe, provide a formidable deterrent to future targeting. And it is only fair that real consequences should follow from a finding that foreign governments have acted unfairly to undermine American competition.

B. National Security Import Relief

NMTBA has, on several occasions, appeared before this Committee to discuss the machine tool industry's request for temporary import relief filed in March, 1983 under Section 232 (the National Security Clause) of the Trade Expansion Act of 1962. The history of the long and difficult process we encountered is widely known and need not be repeated today. However, we are pleased to report that, pursuant to negotiations authorized by President Reagan last May, the governments of Japan and Taiwan have agreed to limit certain machine tool exports¹ to the U.S. for a five-year period which began in January, 1987. We would like to take this opportunity to thank Chairman Rostenkowski and other members of the Committee who visited Japan and Taiwan just prior to the conclusion of these delicate negotiations. NMTBA deeply appreciates the effort you made on the industry's behalf during that trip and, in fact, throughout the prolonged pendency of the Petition. We know you were gratified to learn that, ultimately, those efforts paid off.

The President also asked Secretary Baldrige and Ambassador Yeutter to advise other countries that their machine tool exports to the U.S. should remain at levels which do not undermine the purpose of these voluntary restraint agreements. We understand that they have informed the principal foreign machine tool suppliers that the President is prepared to take unilateral action, under authority of Section 232, should this occur. In addition, the Department of Commerce has spearheaded a Domestic Action Plan to facilitate the industry's recovery effort.

NMTBA recognizes that these actions are not intended to be a permanent solution to the industry's problems. We are hopeful, however, that they will provide a reasonable period of time -- and a climate -- in which the industry can take the necessary steps to improve its competitive position.

Our own experience with the 232 process, riddled with pitfalls and unforeseen delays, leads us to the conclusion that the imposition of deadlines on Presidential decision-making in future national security cases is warranted. As currently drafted, H.R. 3 requires that the Secretary of Commerce report his findings and recommendations to the President within 90 days (rather than the current one year) and that the President make a finding within 30 days of receiving the Secretary's report.

NMTBA is concerned that these deadlines are imprudently short. They do not permit sufficient time for the complex assessments and information-gathering which invariably are required in strategic decision-making. In fact, far from improving the position of potential 232 petitioners, such impractical deadlines may actually weaken their chances of obtaining meaningful relief -- in the absence of complete information, decision makers are more likely to deny such requests.

¹Japan has agreed to limit its exports of machining centers, computer controlled and non-computer controlled lathes, computer controlled and non-computer controlled punching and shearing machines and milling machines. Taiwan has agreed to limit its exports of machining centers, computer controlled and non-computer controlled lathes and milling machines.

Our experience indicated no bottleneck in the Secretary's investigation of the Petition. He fully complied with the statute and, in fact, submitted his recommendations to the White House in advance of the one year deadline. We, therefore, believe that in light of the thorough evaluation which should precede any 232 decision, the current statutory limit of one year on the Commerce Department's investigation is reasonable and should be retained.

We did not encounter serious delays until the Petition was sent from the Commerce Department to the White House. The national security demands that these delays not be repeated in future cases. However, we do not think that a 30-day time limit affords the President sufficient time for a balanced and reasoned analysis of the Secretary's findings. We, therefore, recommend that the Committee adopt the proposal, originally offered during last year's mark-up by Rep. Barbara Kennelly, imposing a 60-day time limit in which the President must decide whether to restrict imports that threaten to impair the national security and a 15-day limit regarding the manner in which such restrictions will be imposed.

C. Protection of U.S. Intellectual Property Rights

NMTBA commends the proposal to expand the list of unfair trade practices under Section 337 of the Tariff Act of 1930 to include the importation of any article formulated or manufactured by a process which infringes on a U.S. patent, trademark or copyright. We are also pleased to see that an injury requirement would no longer be imposed in such cases, nor would the industry seeking relief from unauthorized importation necessarily need to be "efficiently and economically operated" in order to obtain relief. The proposal aptly recognizes that the primary focus of inquiry in such cases should simply concern whether or not infringing importation has occurred. NMTBA believes that, by strengthening the protection of U.S. intellectual property rights, these amendments to Section 337 will enhance the competitiveness of U.S. companies competing in world markets.

III. CONCLUSION

United States' competitiveness and national security are unquestionably intertwined. We, as a nation, simply cannot afford to sit back and watch our most critical industries be targeted out of existence under the guise of "free trade." Yet, that is the inevitable outcome unless Congress acts to strengthen U.S. trade laws by providing prompt and certain relief to U.S. victims of foreign export targeting and by imposing reasonable deadlines on Presidential decision-making in national security import relief cases. We look forward to working with you to achieve these objectives.

Chairman GIBBONS. Thank you, sir. Mr. Regan.

**STATEMENT OF TIMOTHY J. REGAN, SECRETARY-TREASURER,
COALITION ON INTERNATIONAL TRADE EQUITY [CITE], AND
DIRECTOR, INTERNATIONAL PROGRAMS, CORNING GLASS
WORKS**

Mr. REGAN. My name is Tim Regan, secretary-treasurer of the Coalition for International Trade Equity. I am also the director of international programs for Corning Glass Works.

We want to thank you for the opportunity to appear before the subcommittee today on behalf of the Coalition for International Trade Equity—CITE—to present the case for amending U.S. trade law to address the problem of export targeting by foreign governments.

I want to make my statement very brief. I have two points to make. No. 1, the information about targeting and its adverse effect abounds. The issue has been virtually studied to death. In 1985, this subcommittee asked the administration to undertake a study of the practice which the administration did in the areas of automobiles, semiconductors and computers. That study concluded there were at least six limitations in U.S. unfair trade law as it deals with export targeting.

The International Trade Commission studied the problem in the period from 1983 to 1985 and produced three volumes, virtually hundreds and hundreds of documents, proving that industrial targeting programs exist all over the world.

Finally, the President's own Export Council in 1984 produced a study on the issue of export targeting, and I would like to read you a small quote from that study.

Present U.S. trade laws do not address the magnitude of the competitive advantage gained by practicing industrial targeting. A new procedure providing a disincentive commensurate with the competitive advantage must be sought if eliminating industrial targeting is to become a subject of future international negotiations on free and fair trade.

Mr. Chairman, the evidence shows three things beyond any reasonable doubt. No. 1, export targeting exists; No. 2, that it has an adverse effect on United States industries; and, No. 3, that U.S. trade laws simply do not deal with the problem.

We believe the work done by this subcommittee last year included in H.R. 4800 goes a long way toward solving the problem, and we support those provisions. We have one suggestion for a change in those provisions. We recommend you include a provision authorizing the USTR to seek a negotiated settlement to a targeting problem before it causes or threatens material injury to a domestic industry. This approach would enable the USTR to act preemptively against an export targeting problem on a totally discretionary basis. This would enable the Government to deal with targeting before it becomes a serious bilateral problem, thus avoiding the needless friction between trading partners.

In closing, I want to thank you for the work you have done in this area. You have been cutting a new path into U.S. trade law, and we urge you to continue to do so. We want to offer to work with the committee to amend your provision to include our small suggestion. Thank you.

[The statement of Timothy J. Regan follows:]

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Mr. Chairman, my name is Tim Regan. I am the secretary/treasurer of the Coalition on International Trade Equity, CITE, as we call it. I am also the Director for International Programs of Corning Glass Works. Thank you for the opportunity to appear before the Subcommittee to present the case for amending U.S. trade law to address the problem of export targeting by foreign governments.

Before I proceed, I would like to tell you a little bit about CITE. CITE is a coalition of high technology companies whose markets have been targeted by foreign governments. The objective of the coalition is simply to get a dependable and meaningful remedy enacted into U.S. unfair trade law to deal with the problem of export targeting.

Evidence on the targeting problem abounds. In 1985, the Administration produced a study for Congress on export targeting in the auto, computer, and semiconductor industries only to conclude that there were at least six limitations in existing trade laws as it applied to the practice of export targeting. From 1983 to 1985, the U.S. International Trade Commission produced a three-volume study cataloging the export targeting practices of Japan, Europe, Canada, and a number of newly industrialized countries. Finally, in 1984, the President's Export Council produced a report on industrial targeting which cataloged the industries that are targeted worldwide and concluded, and I quote:

"[Present] U.S. trade laws do not address the magnitude of the competitive advantage gained by practicing industrial targeting. A new procedure providing a disincentive commensurate with the competitive advantage must be sought if eliminating industrial targeting is to become a subject of future international negotiations on free and fair trade."

Mr. Chairman, the evidence shows, beyond any reasonable doubt:

- that foreign industrial targeting exists;
- that it can have an adverse effect on U.S. firms and workers; and
- that existing trade laws do not deal adequately with the problem.

CITE believes that the provisions on export targeting approved by this Subcommittee last year and included in H.R. 4800 go a long way toward addressing the problem. These same provisions have been included in H.R. 3 which has been introduced in this Congress.

We do, however, have one suggestion. We recommend that you include in the bill a provision authorizing the USTR to seek a negotiated settlement to a targeting problem before it causes or threatens material injury. This provision would enable the USTR, through self-initiated action or in response to a petition, to act preemptively against export targeting on a totally discretionary basis. This will enable the government to deal with targeting before it becomes a serious bilateral problem, thus avoiding needless friction between trading partners.

Mr. Chairman, in closing I want to thank you again for the opportunity to appear before the Subcommittee. CITE is anxious to work with you on the export targeting provisions of your bill. We support the targeting provision in H.R. 3, and we'd be pleased to work with your staff to draft our suggestion into the bill. Thank you.

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TESTIMONY BY
TIMOTHY J. REGAN
ON BEHALF OF THE COALITION FOR INTERNATIONAL TRADE EQUITY
BEFORE
HOUSE WAYS AND MEANS SUBCOMMITTEE ON TRADE
FEBRUARY 19, 1987

INTRODUCTION

Mr. Chairman, it's an honor to appear before the Subcommittee today on behalf of the Coalition for International Trade Equity -- CITE -- to present the case for amending U.S. trade law to address the problem of export targeting by foreign governments.

Before I proceed, I would like to tell you a little bit about CITE. CITE is a coalition of high technology companies whose markets have been targeted by foreign governments. The objective of the coalition is simply to get a dependable and meaningful remedy enacted to deal with the problem of export targeting.

I'm pleased to say, Mr. Chairman, that CITE endorses fully the provisions on export targeting approved by this Subcommittee last year as part of H.R. 4800. These same provisions are included in H.R. 3. We have only one suggestion for improving these provisions which I will discuss later in my testimony.

My primary purpose today is to convince the skeptical Members of the Subcommittee of the critical need for enacting unfair trade legislation to address the problem of export targeting. Specifically, I intend to achieve four objectives in my testimony:

- (1) describe for you what export targeting is;
- (2) diffuse the debate over whether export targeting exists and is injurious to U.S. workers and firms;
- (3) identify the gaps in existing law as it relates to export targeting; and
- (4) make specific recommendations for changes in law to address the problem.

In making my case, I will draw heavily from the seminal economic analysis financed by the Administration on the targeting issue in 1985.¹ This study was mandated by the Congress under Section 625 of the Trade and Tariff Act of 1984.

WHAT IS EXPORT TARGETING?

The threshold issue we have to address in dealing with export targeting is trying to define it. Simply stated, export targeting involves a whole host of government policies and practices which have the combined effect of making an industry more competitive than it otherwise would be in the absence of such practices.

¹ See An Analysis of the Effects of Targeting on the Competitiveness of the U.S. Semiconductor Industry, National Technical Information Service Document Number PB85 - 213270.

Typically, a targeting program works in the following fashion. First, the targeted market is closed by the foreign government, which guarantees domestic producers the entire home market at premium prices. Second, resources are transferred to the targeted industry through a variety of means including direct subsidies, discriminatory government procurement, lax enforcement of anti-trust laws, only to name a few. Third, as production volume builds through domestic sales and the targeted industry's costs decline, the industry is weaned off the home market protection and resource transfer. Finally, when the industry is competitive on a worldwide basis, all protection and resource transfers are terminated.

I must congratulate you and your staff for narrowing the description of export targeting into a meaningful, understandable definition. This definition was included by this Subcommittee in H.R. 4800 last year and remains in H.R. 3.

THE DEBATE

As you know, there are those in the debate over export targeting who say it's not a problem. They are largely economists who argue that targeting simply cannot work. They ask: How can you create a competitive industry through protection at the border? This is a legitimate question to ask. U.S. experience with protection at the border has been dismal.

The critics go on to ask: Even if export targeting works, why should we do anything about it when in most cases the so-called targeting practices of foreign governments are eliminated when the targeted foreign industry becomes competitive in the U.S. market? Frankly, the critics have another good point. And, as I noted earlier, the final stage of a targeting program typically is to terminate the policies that protect the home market and transfer resources to the targeted industry.

Unfortunately, the critics have used traditional economic tools in analyzing the effects of foreign industrial targeting. These tools are based on the concept of perfect competition where there are no barriers to entry, products have perfect substitutes, and there are many consumers and producers. In addition, these traditional models are static in that they do not capture changes in costs that result from increasing production volume over time. Using the perfectly competitive static model, I too would conclude that export targeting is not a public policy problem.

But, we must use an imperfectly competitive dynamic model in analyzing the effects of targeting. It's precisely through the use of barriers to entry not recognized in a perfectly competitive model that governments transfer volume to targeted industries with high learning and scale economies. The result of such a transfer of volume can be a permanent, long term reduction in the cost of production for the targeted industry. This dynamic effect makes a targeted industry competitive long after the targeting practices have been eliminated.

The Administration used an imperfectly competitive dynamic model to study the effects of export targeting on the domestic semiconductor industry only to find that the critics are dead wrong. Under the direction of Congress, the Administration contracted with Quick, Finan, and Associates, an economic consulting firm here in Washington, to do a comprehensive study of the effects of foreign industrial targeting on the 16K and 64K dynamic random access memory (DRAM) segment of the semiconductor industry. This study was based on an imperfectly competitive dynamic mathematical model, and it demonstrated beyond any reasonable doubt that U.S. producers of 16K and 64K DRAMS lost 9 to 24 percent of the U.S. market during the period beginning in 1978 and ending in 1984 to Japanese producers as a result of Japan's export targeting practices benefiting its semiconductor industry.

This lost market share translated into \$300 to \$750 million in lost sales for U.S. companies and in 6,200 to 14,500 fewer high skilled, good paying jobs for Americans during the 1978-84 period. Certainly, the condition of the U.S. semiconductor industry today relative to Japan's is more than enough evidence to defuse arguments against doing nothing about the export

targeting problem.

For the Subcommittee's convenience, I have included a summary of the semiconductor study in the appendix to my testimony. If you have any doubts about the technical sophistication of this analysis, I suggest you examine the appendix. You'll find that the analysis uses the most modern analytical techniques that have survived the closest scrutiny of skeptics in the economics profession.

THE GAPS IN CURRENT LAW

As part of its 1985 study of the targeting issue mandated by the Congress, the Administration reviewed all existing trade statutes to determine if existing law deals adequately with the problem. The Administration's analysis revealed six limitations in the application of existing laws to targeting. The study found that "[existing laws] do not:

- address GATT-consistent home market protection;
- offset the economic effects of targeting when they are separated from the government practices by time;
- counter alleged 'multiplier effects' that arise because commercial banks might give a targeted industry preferential lending terms;
- offset fully the effect of targeting in third country export markets;
- counter the entire benefit associated with unfair R&D assistance; and
- address cooperation among private firms which allegedly enhances competitiveness."

The Administration's conclusion that current law doesn't address the problem is supported by a December 1984 report to the President on industrial targeting published by the President's Export Council. The Council concluded in that report:

"Industrial targeting is a particularly difficult barrier to free trade to deal with under existing international agreements. [Present] U.S. trade laws do not address the magnitude of competitive advantage gained by practicing industrial targeting. A new procedure providing a disincentive commensurate with the competitive advantage must be sought if eliminating industrial targeting is to become a subject of future international negotiations on free and fair trade."

As you can see, the Administration and the President's private sector advisers have attested to the failure of existing law in addressing the problem of export targeting.

RECOMMENDATIONS

I think you will agree that the evidence shows, beyond any reasonable doubt, three things:

- (1) that foreign export targeting exists;
- (2) that it can have an adverse effect on U.S. firms and workers; and
- (3) that existing trade law does not adequately address the problem.

In light of these conclusions, it appears that the Congress has three choices: First, it can do nothing; second, it can adopt an export targeting policy for the United States in order to ensure that we develop an indigenous production capability in certain critical high technology sectors; or third, it can adopt a defensive strategy designed to offset

the adverse effects of foreign export targeting programs on U.S. firms and workers.

CITE believes that the Congress has little choice but to adopt the third option. This would involve amending Section 301 of the Trade Act of 1974 to specifically address the problem of export targeting.

CITE applauds the Subcommittee for including such a provision on export targeting in H.R. 4800 last year. Of course, this same provision is included in H.R. 3 of the 100th Congress. We believe that the export targeting provisions in H.R. 3 go a long way toward addressing the problem because they:

- make targeting specifically actionable under the law;
- include a definition of targeting which is not excessively broad so as to encompass virtually all forms of government assistance;
- delegate authority to act to the USTR, thereby giving him some real power with which to negotiate;
- establish a procedure under which action is assured only in circumstances when the industry can prove material injury or threat thereof;
- do not require retaliation, but rather give the President authority to take domestic action to deal with a foreign export targeting program that is adversely affecting U.S. industry;
- include deadlines for action;
- make the third country effects of an export targeting program actionable;
- establishes Congressional intent in the Committee Report for the USTR to take action against targeting practices which no longer exist but, in fact, were critical in making the foreign firm competitive; and
- make the negotiation of international rules to discipline export targeting an objective for the Uruguay Round.

In short, we believe the export targeting provisions of H.R. 3 are reasonable and balanced.

We do, however, have one suggestion. We recommend that you include in the bill a provision authorizing the USTR to seek a negotiated settlement to a targeting problem before it causes or threatens material injury. This provision would enable the USTR, through self-initiated action or in response to a petition, to act preemptively against export targeting on a totally discretionary basis. This will enable the government to deal with targeting before it becomes a serious bilateral problem, thus avoiding needless friction between trading partners.

Mr. Chairman, in closing I want to thank you again for the opportunity to appear before the Subcommittee. CITE is anxious to work with you on the export targeting provisions of your bill. We support the targeting provision in H.R. 3, and we'd be pleased to work with your staff to draft our suggestion into the bill. Thank you.

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APPENDIX

This Appendix provides a brief description of the model used by the Administration to estimate the effects of export targeting in Japan on the U.S. producers of 16K and 64K DRAM semiconductors. It is essential to understand the model in order to realize that the estimates are based on rigorous analytical methods. The model incorporates three different and distinct models:

- (1) a Cost of Production Model which captures the dynamic effects of cumulative production volume in reducing costs through what are commonly called scale and learning economies;
- (2) a Pricing Model which relates the ratio of prices charged by Japanese semiconductor producers in the U.S. market to those charged by U.S. producers to four mathematically derived variables; and
- (3) a Market Share Model which relates the movement in the price ratio developed in the Pricing Model to changes in Japanese and U.S. producers' shares in the U.S. market.

These three models focus strictly on the 16K and 64K DRAM semiconductor markets.¹

Cost of Production Model: This model is based on survey data of the relative cost of land, labor, and capital for U.S. and Japanese semiconductor producers during the base year 1980. Price indices are then used to calculate the relative costs of land and labor back to 1970 and forward to 1984. Annual changes in the cost of capital were developed using a widely accepted methodology originally developed by Hall and Jorgensen.

To capture the so-called learning and scale economies, these costs had to be adjusted for changes in yield. In the production of semiconductors, variable costs decline dramatically as cumulative production volume increases. As indicated in Figure 1, more than 90 percent of the results of the first stage of processing, the wafer sort stage, have to be discarded when production begins. These yields, however, improve very dramatically with cumulative production volume reaching nearly an 80 percent success rate when cumulative production reaches over a billion units. As is readily apparent, increasing production in a semiconductor business can substantially reduce costs. It is here where the dynamics of the industry are critical in making a targeting program work effectively.

In developing the Cost of Production Model, the yield improvement rates were estimated by the analyst based on previous experience with the industry and on industry data. Based on the estimates of yield improvements in the various stages of production, the cost of production per semiconductor was calculated for both U.S. and Japanese 16K and 64K DRAM chip producers. The costs for Japanese producers were then adjusted to reflect freight and tariff charges in order to derive a total variable cost for the production of Japanese-produced chips exported and sold in the United States.

From these cost estimates, a ratio was calculated of the variable cost of production for Japanese producers relative to the variable cost of production for U.S. producers. This ratio was then used as a variable in the Pricing Model.

¹ For detailed explanation see An Analysis of the Effects of Targeting on the Competitiveness of the U.S. Semiconductor Industry, National Technical Information Service document number PB85 - 213270.

The Pricing Model: This model is used to capture the imperfectly competitive aspects of the worldwide semiconductor market. The model is based on the following general assumptions about the semiconductor industry:

- (1) there are barriers to entry because the semiconductor technology is difficult to master;
- (2) firms react to the pricing decisions of their rivals;
- (3) semiconductor products are imperfect substitutes, in particular, Japanese DRAMS are not perfect substitutes for U.S. DRAMS;
- (4) the markets are segmented, specifically the Japanese market is closed to U.S. DRAM exports while both Japanese and American producers compete in the U.S. market for DRAMS;
- (5) a higher demand elasticity for DRAMS in the U.S. market than in Japan; and
- (6) DRAM production costs fall over time due to dynamic scale and learning economies.

The model attempts to capture the special characteristics of the DRAM market through a complex mathematical relationship. Specifically, the model relates the ratio of the prices charged by Japanese DRAM producers in the U.S. market to the prices charged by U.S. producers to five factors:

- (1) the relative production costs between U.S. and Japanese producers as determined using the Cost of Production Model;
- (2) the relative U.S. and Japanese market demand elasticities;
- (3) the relative degree of substitutability between U.S. and Japanese DRAMS;
- (4) producer estimates of how Japanese producers believe any price and/or output change they make will be met by changes on the part of U.S. producers; and
- (5) the degree of concentration of sellers in the Japanese and the U.S. DRAM markets.

The derivation of this complex relationship is beyond the scope of this description. However, it is presented in the study submitted to the Subcommittee last year.²

Market Share Model: This model simply relates the changes in the price ratio calculated in the Pricing Model to changes in the relative market shares of U.S. and Japanese producers in the U.S. market for DRAMS. A simple regression analysis is done which shows that over 70 percent of the variation in U.S. and Japanese market shares is explained by changes in the price ratio.

As should be apparent, these three models, the Cost of Production Model, the Pricing Model, and the Market Share Model, are all interrelated. For example, the cost of production calculated using the Cost of Production Model is a primary variable which determines the price ratio in the Pricing Model. And, the price ratio in the Pricing Model determines the market share calculation in the Market Share Model. These linkages between the models are critically important in understanding conceptually how the estimates were made. They are shown graphically in Figure 2.

² Ibid, Appendix C, p. C-1.

To analyze the effect of a specific Japanese targeting practice, an assumption was made on how the removal of that practice affected one of the critical variables in either the Cost of Production Model or the Pricing Model. The models were then run in a stepwise, or recursive fashion, to calculate the market shares of U.S. and Japanese DRAM producers each year for the period beginning in 1978 and ending in 1984. These simulated market shares were then compared to actual market share data to determine how much the Japanese producers' market share was directly attributable to the targeting practice in question. In virtually every case, the removal of a specific targeting practice resulted in a simulated market share for Japanese producers below that which actually existed.

For example, it was assumed that if Japanese home market protection were removed, a share of the Japanese DRAM market would have shifted from Japanese to U.S. producers. This in turn shifted production volume from Japanese producers to U.S. producers in 1978, the first year the model was run. This shift in production volume had the effect in the cost of Production Model of reducing costs for U.S. producers and increasing costs for Japanese producers. This change in the relative costs of production affected one of the primary variables in the Pricing Model which in turn had the effect of raising the simulated price charged by Japanese producers in the U.S. market relative to the price charged by U.S. producers (i.e., the price ratio). This in turn changed the relative market shares in the Market Share Model, increasing U.S. producers' share in the U.S. market and decreasing the Japanese producers' share from actual levels for 1978. This change in relative market shares for 1978 changed relative production volumes in 1979 which in turn changed the relative costs of production, the price ratio, and the relative market shares for 1979 as well. Similar changes were projected for every year through 1984 in this recursive pattern. This procedure captures the dynamic effects peculiar to the semiconductor market.

Using this methodology, the effects of four different kinds of targeting practices were analyzed. These included practices which protect the home market from import competition, reduce the cost of capital, ease the enforcement of anti-trust standards, and provide R&D/financial subsidies. Market share estimates are calculated when individual targeting programs are removed. Estimates are then made when all of the targeting programs are removed simultaneously. It is under this condition that the estimate of a 9 to 24 percent market share gain by the Japanese producers due to targeting is calculated.

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Chairman GIBBONS. I thank you for your suggestion. I believe GATT is a fine organization, but it is sort of a consensus organization, and it will tend to slip and slide unless someone gets out and points the way for reforms in current and modern practices. We don't intend to violate the spirit of GATT, which is to open and promote freer trade, but we can't wait for it to catch up because any operation that is carried on under unanimous consent is not going to be a very progressive operation.

I think America has a responsibility to lead in this area. I intend to press that point of view, whether it is accepted or not by some of my colleagues.

Mr. O'Reilly, I really think that your case represents not only what needs to be done in substantive law but what needs to be done procedurally around here, and that is if we bestow upon the President too much discretion, there are those who would use that discretion to their advantage, not necessarily to the advantage of the United States, and I have noticed on a number of occasions, including the case that you referred to, your own case, in which I think the President would have been better off had he not had so much discretion, had he been required—had the statute put the burden upon him to act. And that is the reason for us changing these provisions in the law in H.R. 3. It is not to deprive the President of power, but to make him less subject to blackmail attempts. I have seen on two occasions, occasions where I think the President was actually blackmailed by others, and where the decisions came out so distorted that is the only way you could explain the decisions.

One was certainly your case. I witnessed the lobbying, I know the suggestions that were made, and I think we don't do the President any favor when we give him all that discretion. So I realize that that is not a popular theory up here on this dais, but it is my theory, that we can help the President by not putting too much discretion on him in these cases. If he has to go to his trading partner and say,

Yes, I would like to work with you in all these other fields that are extraneous to this matter, but I am bound by law to carry out my duties, I am sorry, sir, I can't comply with what you are suggesting we ought to do, I am bound by law.

I think we are going to have less interference in our affairs. I think we will establish more of a rule of law in that. I am terribly saddened Houdaille has taken the financial licking it has taken because of mistakes right here in Washington. So you have performed a useful service. I hope you don't feel too much like a guinea pig, though.

Mr. O'REILLY. As I think I have discussed with you, sir, it cost us over \$1.5 million and incurred 2 years of calendar time and many many man-years of effort. What was most discouraging was the fact that you and many of your colleagues and many of the people on the White House staff agreed with our findings—and yet it ended up in a futile attempt for relief.

Chairman GIBBONS. Another thing that disturbs me is that no one in our Government, although some agencies of our Government did know about what was going on in the case that you referred to, no one ever brought it to our attention, no one in our

embassy, State Department, no one in our Intelligence Department ever brought it to our attention, although there is some real good evidence at least one of those agencies was monitoring what was going on. But for some reason they hid it from the Congress. I think a great injustice was done. I want to make sure it doesn't repeat.

Are you all satisfied that we are going far enough in these laws that we have here in H.R. 3?

Mr. MACK. Mr. Chairman, I am Jim Mack, with the National Machine Tool Builders' Association. As our testimony indicates, we are in general support of what you have done in the targeting area in H.R. 3. You mentioned Presidential discretion. Throughout this process—not just on the targeting issue, but throughout the entire bill the degree of Presidential discretion is going to be a very contentious issue. I think, the approach that you have taken is a very good compromise. One could mandate the President in all cases of targeting to retaliate. Some would argue that if you do that, you would end up with cases in which the President did not wish to retaliate and would simply find that what are clearly unfair trade practices did not meet the definition of targeting, thus establishing a precedent that in future cases those practices could go on unimpeded. That result would be wrong.

So the approach that you have taken of mandating action—which might include retaliation or might include specific domestic programs that could be initiated on behalf of the affected industry—is a much more preferable approach than that taken in some other bills. Those bills essentially provide the President could find that unfair targeting exists, but then permit him to throw up his hands and say "Well, life is unfair sometimes." I think you ought to mandate action.

We would prefer that you not require the industry to go through what we believe to be a redundant and a very difficult process of proving injury. Some argue that putting an injury test into 301 sort of garbages up 301. We would argue that to do so is redundant—that you already have by implication a test that approaches an injury test in 301. Petitioners have to show a disruption of domestic or foreign commerce. Thus, if you take that injury test, you still have a compromise between those who would say that the President should get no discretion at all and those who would give him unlimited discretion.

Mr. REGAN. Mr. Chairman, your approach is very reasonable and balanced. We know the administration has been resisting doing anything on this issue, even making export targeting an actionable practice under the law. We think the administration's position is unreasonable. We think you have come up with a very sound compromise, and we would encourage you not to compromise any further.

Chairman GIBBONS. All right. I have got another question, but go ahead, Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

I have just one question for Mr. O'Reilly. As I recall, the White House sat on the ITC recommendation in your 232 case for about 2 years. Is that correct?

Mr. O'REILLY. That is correct. That was not the Houdaille case. There were two separate actions, two separate petitions.

Mr. PEASE. This is a petition by the association?

Mr. O'REILLY. That is correct.

Mr. MACK. Houdaille filed under an obscure provision in the tax laws because frankly they and their lawyers believed that 301 was simply not adequate to deal with targeting, which is what they were suggesting. NMTBA filed under the national security clause. We presented a case which many members of the committee, including you, supported. You communicated with the administration that you thought ours was a valid case and that they ought to grant what we were asking for.

The Commerce Department has under the statute a year within which to make a determination. They actually came in ahead of that statutory deadline with their determination that certain segments of the machine tool industry which are critical to the national security of our country were imperiled by imports and Secretary Baldrige submitted his recommendation to the President. It then took 2½ years for the White House to finally decide a matter, which in our view, they should have decided shortly after Secretary Baldrige sent his recommendations over.

In May of last year, the President, when finally presented with the facts, made the correct decision. He did instruct the Secretary of Commerce to go forward with negotiations with Japan and other countries to try to work out a VRA. He set a 6-month deadline, so that if they hadn't come to terms within a certain period of time, then he would take unilateral action.

I am happy to report to you that in our view the Secretary of Commerce and his negotiating team—Dr. Freedenberg and his staff did an absolutely superb job. Everything they went into the negotiations with they came out with. If I ever get in a street fight, I want Mac Baldrige and Paul Freedenberg on my side. They did an absolutely superb job. The outcome was useful.

The unfortunate thing is that about 25 percent of the industry is not going to be around to benefit from that outcome, because they are no longer producing in the United States. We believe that a significant portion of that 25 percent would still be around had the President acted in a timely manner based on the recommendations of his Secretary of Commerce. The recommendations were not made by some quasijudicial body. His Secretary of Commerce, in consultation with his Secretary of Defense and his intelligence agencies, made a recommendation to him; what the President ultimately accepted 2½ years too late.

We think that time deadlines need to be imposed on Presidential decisionmaking in 232 cases after the Secretary of Commerce has acted.

Mr. PEASE. Do any of you have any information as to why it took the White House 2½ years to make a decision?

Mr. MACK. First of all, I think you had some of the staff at the National Security Council who are no longer there—some of them have left government employment, and others are elsewhere in the Government—may have felt they were protecting the President from making a decision. "We will just sit on it and never never send it to him." Second, there was an interagency conflict that was

going on within the Government at the same time over the mobilization scenario upon which national security and stockpile cases are based. And what the domestic economy would look like during a mobilization.

We believe that the position of those who were trying to hold things up and enforce their position on others in the administration—such as the Defense Department, the intelligence agencies and the Commerce Department—were without merit.

That 2½ years of delay was very detrimental to the very national security of the United States, which our petition sought to protect and which the people who were unfortunately engaged in those delays were sworn to uphold.

Mr. PEASE. Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you.

You think under the 232 process that rather than H.R. 3, as we now have it, you would rather have a year for the investigation and then one—

Mr. MACK. I think 60 days is a reasonable time.

Chairman GIBBONS. Sixty days for decisionmaking?

Mr. MACK. Yes. I think one can defend a year for the Commerce Department. I know some have suggested 6 months. But the point is that after having had a year-long independent investigation—including economic modeling and decisions about what the mobilization scenario ought to be and how much shipping losses there would be in the event of a national emergency, and so forth—it is absolutely unreasonable in our view that someone in the White House staff or other agencies of the Government be permitted to relitigate all those things over again and take 2½ years to do so.

I think once the President receives a recommendation from the Secretary of Commerce, he ought to have, you ought to be able to make a decision in 60 days.

Chairman GIBBONS. Thank you all very much. We appreciate it. We encourage you to keep at it. We are going to make some progress here.

Next we have the New England Council, Inc., Gale D. Merseth.

Mr. Merseth, you may proceed as you wish.

STATEMENT OF GALE D. MERSETH, PRESIDENT, THE NEW ENGLAND COUNCIL, INC.

Mr. MERSETH. Thank you very much, Mr. Chairman.

We very much appreciate the opportunity to testify before the committee today on these very important matters.

The New England Council is an organization formed some 60 years ago by the six New England Governors and by business leaders from around the region. They came together around the competitiveness issue.

At that time, the concern was over the loss of textile manufacturing to other parts of the country. Competitiveness is still the issue today, only now the issue is one involving international trade rather than competition within our 50 States.

I will summarize briefly the testimony that I have submitted today and then be pleased to take any questions you may have.

As I indicated, the members of the New England Council come from all around the region. We also represent all sectors of the economy. However, as we represent service industries, health care, manufacturing, wholesale and retail trade, the full spectrum of what makes up the New England economy, all of us share a concern over the threat to our manufacturing industries.

The sources of the recent success of the New England economy include its diversity and the results over many years of investing in the higher education sector that has produced outstanding research and development products as well as providing us with a highly trained work force.

That has led, in turn, to the creation of hundreds or perhaps thousands of new companies in New England and to the creation of entire new industries.

New Englanders have a great stake in trade as an issue. More so than other parts of the country, our employment in manufacturing, particularly in high technology manufacturing, is export related.

We are concerned with the erosion of the ability of American companies and New England companies, in particular, to compete internationally because of problems that have become evident in international trade.

In 1986, the United States became a net importer of high technology products across the board. You have heard in some detail about the problems of the semiconductor industry, but the problem is much broader than that and it covers the entire high technology sector.

In New England during the 1980's, we have lost jobs in high technology manufacturing. From a base of slightly less than a million jobs in 1980, we have lost over 3 percent of those jobs by the end of 1986 in an area in which we should be experiencing growth.

High technology is, after all, the front end of our economy. It represents the areas in which we ought to be able to compete most effectively worldwide, and yet in that area we have lost employment.

In order to compete effectively in international competition, companies need to develop strategies that are effective given the industries in which they are competing and in order to do that they need to respond to issues such as employment policies that lead to committed work forces. They need to invest adequately in research and development, and in new manufacturing facilities in order to continue to improve their productivity, defined broadly to include not only lower costs, but higher quality and innovation.

We need clearly to have public policies that foster that kind of investment and that kind of initiative on the part of American companies.

Second, companies compete in the context of country-based advantages and disadvantages.

A key American advantage over time has been its large domestic market, the world's largest market, a very affluent market, one characterized by a very efficient distribution system and an infrastructure that has facilitated the distribution of goods and services throughout this marketplace.

I might comment briefly that many other countries into which we try to export do not have such efficient distribution systems

and, therefore, American manufacturers face a much tougher job, not only for reasons having to do with trade barriers and cultural reasons, but for reasons that have to do with the basic structure of those economies, particularly with respect to distribution.

An overseas manufacturer can produce a product, deliver it to the American economy, and have a system that is very, very effective in getting it into the hands of the consumer and that is not always the case overseas.

The New England Council has for many years advocated policies that are designed to improve the competitiveness of New England companies in these areas.

We advocate a long-term commitment to excellence in research and development.

We advocate the development of policies in our region and national policies that ensure we have adequate supplies of electricity and other energy. In the area of international trade, we commend the committee and the Members of Congress for include in H.R. 3 the elements of the Fair Foreign Trade Practices Act which amends Section 301.

It addresses a number of concerns that New England Council members and firms in our part of the country feel strongly about.

The objectives of trade reform should include increasing accountability in the administration of trade laws by establishing strict timetables, requiring real actions be taken and that rationales for action or the failure to take action be spelled out formally so that there is some public awareness of the decisionmaking process.

Secondly, we need badly to address the major abuses that have taken place with respect to such things as counterfeiting and intellectual property rights as well as injurious industrial targeting.

In New England, we have seen a number of examples of that kind involving such things as toys, shirts, computer products and others.

Finally, we believe it is important to pursue negotiations aggressively through GATT and to broaden the areas that are subject to negotiation in order to lower barriers to trade on the other side.

In conclusion, I would say that we in New England are concerned about the possible effects of protectionism. As I indicated, we are very much dependent on trade and have historically been free traders in New England.

Second, however, we believe that there are a number of unfair and injurious foreign trade practices that are manifestly at work and that must be addressed in order to make sure that American firms and New England firms have the opportunity to compete on a basis that is fair as well as free.

Finally, the competitiveness issue is, as you know, Mr. Chairman, a very long-term problem. It involves improving our rate of productivity growth which means investment in plant and equipment.

It means increasing our investment in research and development.

It means the ability to finance our own growth over time, not to have it financed as some have suggested, by the capital that has been built up in Japan or elsewhere around the world.

That means that over time we must develop mechanisms and incentives to save more in this country in order to increase the investment that we need to make in these important areas.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]



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Testimony

of Gale D. Merseth
President
The New England Council, Inc.

Subcommittee on Trade
House Committee on Ways and Means
February 20, 1987

TRADE AND NEW ENGLAND'S ABILITY TO COMPETE

The New England Council is the nation's oldest regional business association, founded in 1925 to help business and government leaders in the region to address fundamental issues of economic change. At that time New Englanders were concerned with the loss of textile manufacturing to other parts of the country. The issue was competitiveness. Today the New England economy is strong, but that strength is threatened by a trading system badly in need of reform.

The New England Council's members represent all sectors of the region's economy -- manufacturing, financial and professional services, wholesale and retail distribution, utilities, and health care and educational institutions. Almost a dozen of the nation's top fifty exporters have headquarters and/or significant operations in New England.

Since the early to mid 1970s New England has rebounded from an extremely weak economic position to one of relatively high growth and low unemployment. During that time New England was able to diversify its sources of energy, develop new high value added products and services, and realize substantial benefits from the decades old investment in higher education which produced large amounts of world class research and development and spawned hundreds of companies and whole new industries.

New Englanders have a great stake in trade. By the mid 1980s some 20% of the region's manufacturing jobs were export related, with an especially high proportion of those in high wage, high value added, high technology industries (e.g., electrical and nonelectrical machinery and precision instruments). But nationwide we have seen an erosion of the U.S. share of world exports in these areas that are the most technologically sophisticated, that represent the front end of our economy.

By 1986 the United States had become a net importer of high technology products and for several years has been a net importer in the electronics field. These are areas where we should be running large surpluses, if we are to do it anywhere. This is a cause for special concern in New England where we are particularly dependent on this sector and where we have lost manufacturing jobs in precisely these areas in the 1980s. For example, between 1984 and 1986 the New England region lost 4% of its manufacturing jobs overall, with losses in high technology fields roughly paralleling the manufacturing losses overall.

To compete effectively in global markets, companies need to be able to exploit competitive advantages and minimize competitive disadvantages in three broad areas, each of which has implications for the national debate on competitiveness. I shall touch only briefly on the first two, although they are extremely important, before turning to trade issues which come under the third.

First, companies compete on the basis of firm-specific strategies designed to give them positions of strength in their chosen product-markets within the structure and dynamics of those industries. These firm-specific strategies encompass a range of policies that can be significantly affected by government (e.g., employment policies, levels of investment in research and development and plant and equipment investment decisions) but that are essentially internal management choices.

Second, companies address sources of competitive advantage or disadvantage that are essentially country based. These encompass such factors as the size of internal markets, levels of affluence, distribution systems, infrastructure and the like. Again, some are substantially affected by government policies over time but in the short run are largely given. New England, viewed from this perspective, has a set of region-based advantages (we have a significant number of outstanding higher education institutions) and disadvantages (we have to import virtually all of our energy from outside the region).

In these first two areas The New England Council has advocated policies intended to strengthen the competitiveness of firms in our region (we also think such policies would strengthen firms across the country). I will mention one example in each of the two areas.

o We advocate a long term commitment to excellence in research and development. Specifically, we have urged that the R&D tax credit be made permanent and have supported changes in antitrust law to foster joint ventures in research and development.

o We advocate policies that encourage the development of all sources of energy supplies for New England in the belief that diversity will help protect us from a repeat of our devastating experience with the oil shocks of the Seventies. Specifically, we oppose an oil import tax. We advocate repeal of the Fuel Use Act and deregulation of natural gas. We also work to encourage the orderly planning and licensing of generating facilities.

The third major source of competitive advantages and disadvantages for firms is government policies that either help that country's firms to compete internationally or make it more difficult. Much of this area is addressed in the trade proposals before the 100th Congress and we commend the Congress for making this such a high priority this year.

We think it is vitally important that business and government work together and not at cross purposes in the trade area. The cold reality of the loss of international market share in some of our most technologically advanced fields (e.g., semiconductors) underscores the need for American government to be the ally of American business as it faces global competition.

With respect to trade legislation, the need for process reforms especially concerns us. These matters are incorporated in the Fair Foreign Trade Practices Act, legislation that has been supported since 1985 by The New England Council. Introduced by New England Senators Mitchell and Cohen (ME) and by Congressman Donnelly (MA) and now part of both House and Senate packages, it seeks to improve the nation's ability to respond to unfair and injurious foreign trade practices. This would be done largely through a set of measures designed to increase the accountability of the USTR and the President for bringing infringements to closure by setting strict timetables, requiring the USTR to propose remedies and mandating that the reasons for disapproval of action be formally set forth.

These changes in trade law would strengthen our hand in dealing with such unfair practices as counterfeiting and intellectual property rights violations and patent infringements as well as making

injurious industrial targeting a specific cause for action under Section 301. Investigations could be required as the result of a petition filed by industry as well as at the initiative of USTR. It is also important to authorize a new round of GATT and to expand the scope of items in international trade that are subject to negotiation in order to address the vital issues of market access for American exporters.

In conclusion, three points need to be underscored. First, The New England Council is concerned about the potential adverse effects of protectionism on New England. In principle we are opposed to import fees and quotas and believe efforts to improve market access for American exporters is far the better route. Second, unfair and injurious foreign trade practices must be addressed. The American government must enforce compliance with its basic standards of fairness regarding trade. Finally, the competitiveness issue is a long term problem. To be competitive we must improve our rate of productivity growth which means increasing investment in plant and equipment and R & d and, especially, increasing our investments in process and manufacturing technology. In order to make these investments we need to save more and we need a workforce that is well trained, flexible and committed to their companies' success.

Chairman GIBBONS. Thank you.

I assume you and your association or council do support H.R. 3; is that correct?

Mr. MERSETH. We support the provisions that address section 301. We think that those are ones that have great importance and significance for our membership and we are, as I said, delighted to see those incorporated.

As you know, those were filed by your colleague, Mr. Donnelly.

Chairman GIBBONS. Fine.

Thank you very much.

Chairman GIBBONS. We next have a panel consisting of the Rice Millers' Association and the American Natural Soda Ash Corp., Mr. Fisher and Mr. Andrews and Mr. Gabbert.

Mr. Gabbert, we will hear from you first and then Mr. Andrews.

STATEMENT OF J. STEPHEN GABBERT, EXECUTIVE VICE PRESIDENT, RICE MILLERS' ASSOCIATION, ACCOMPANIED BY BART S. FISHER, COUNSEL

Mr. GABBERT. Thank you, Mr. Chairman.

My name is Stephen Gabbert. I am executive vice president of the Rice Millers' Association. With the subcommittee's permission, I would like to enter my statement into the record and make some summary comments.

Chairman GIBBONS. Certainly; without objection.

Mr. GABBERT. Thank you very much, Mr. Chairman.

I am accompanied today by our trade counsel who is on my right, Bart S. Fisher, with the law firm of Patton, Boggs & Blow.

The Rice Millers' Association is made up of farmer-owned cooperatives and independently owned milling companies that are located in Arkansas, California, Florida, Louisiana, Mississippi, and Texas.

In addition, we have a number of associate members who consist of major exporters of rice. Our association represents a majority of producers of rice as well as the majority of exporters of rice.

Chairman GIBBONS. You represent the millers and the producers and the—

Mr. GABBERT. That is correct.

Chairman GIBBONS. Are they independent of each other? I don't know much about the rice business, is what I am trying to say. Like in Florida, the citrus producers and the citrus—well, the processors and the growers are usually not the same.

Is that true in the rice industry?

Mr. GABBERT. We have a higher degree of vertical integration than you do in other industries.

Chairman GIBBONS. You do have a higher degree of vertical integration. OK.

Mr. GABBERT. A majority of the milling cooperatives are owned by farmers, so we have a high degree of farmer input into our policy positions.

Chairman GIBBONS. Thank you.

Mr. GABBERT. Mr. Chairman, the rice industry is basically an export-dependent crop. We must export approximately 60 percent of total production.

We export rice to approximately 100 countries with major markets in the European Community, Africa, Asia, Latin America, and other parts of the world.

Recently, Congress passed in the 1985 Farm Act the rice marketing loan provisions, which dramatically turned around the rice marketing situation.

From 1981 to 1985, similar to the experience of other agricultural commodities, we were in a downturn as far as exports were concerned. We were contracting for a number of reasons, due to some of the same forces that impacted on other commodities such as the strength of the dollar and a price support policy that made us non-competitive.

We also encountered illegal import barriers to a number of major markets which have prevented us from accessing these markets.

So in the 1985 Farm Act, Congress enacted the rice marketing loan program which made us competitive and has resulted in a dramatic reversal of our declining export situation. At the present time our exports are running approximately 70 percent ahead of the previous year.

While the new rice program has made us competitive and has allowed us to recapture markets, we still are unable to penetrate new ones where we confront the illegal trade barriers we have been dealing with over the last several years.

Mr. Chairman, we have had extensive experience, probably more so than any other agricultural commodity, with 301 complaints.

We have filed three of them. Two of them have been successfully resolved. The third one, which we filed recently against Japan, seeking access for U.S. rice into Japan, we feel has not been resolved to our satisfaction.

In fact, that issue continues to perk along. As a result of this experience with Japan, we have been working with Members of Congress in the Senate and in the House to develop legislation that would obtain access for U.S. rice into markets that have illegal trade barriers.

Such legislation was introduced in the Senate about 2 weeks ago by Senator David Pryor. It is S. 500 and it is entitled the Rice Equity and Trade Expansion Act of 1987.

We expect that similar legislation will be introduced in the House very soon by Representatives Matsui, Fazio, and Huckaby.

The legislation's objective is to use the tools of Government to obtain access for our rice in markets.

It is not protectionist legislation. We are not seeking to protect ourselves at all. What we want is access to markets, especially in countries that are accessing our markets here in the United States.

We cite such examples as Japan, Korea, Nigeria, and the European Community.

The legislation which I am going to ask Mr. Fisher to discuss briefly is modeled on the House telecommunications bill which was passed by the House in the last session.

We feel that it could very easily become a model for trade legislation for other agricultural commodities.

I would like at this point to ask Mr. Fisher, if he would, to make some brief comments regarding the legislation and also regarding the 301 process itself.

Mr. FISHER. In the proposed legislation, Mr. Chairman, we would, as Mr. Gabbert has indicated, have a bill that would model the telecommunications bill originally introduced by Representative Matsui last year and reported favorably by this committee.

Our bill would provide that within 6 months after the date of the enactment, the U.S. Trade Representative is required to identify those foreign acts, policies, and practices of no less than 15 countries which are the largest potential rice markets that deny fully competitive market opportunities to the U.S. rice industry. Then the USTR must establish specific negotiating objectives for each country identified, drawing from a list of primary and secondary negotiating objectives set forth in the bill.

The purpose of these negotiations is to enter into bilateral or multilateral agreements which achieve the primary and secondary objectives established by the USTR for each country.

Such agreements must be reached within 12 months of the date of enactment. However, if substantial progress is being made, the President may request up to two 6-month extensions of negotiating authority, subject to fast-track congressional review.

The most important part of the bill, from the standpoint of this morning's hearings and the discussion about 301, would be in title III where we would amend 303 in a way that would make the 301 process work.

As Steve Gabbert indicated, our experience with 301 was not satisfactory in trying to get into Japan and the bill we would propose in title III would provide the USTR with discretion to refer section 301 complaints to the GATT for resolution in cases involving agricultural products and the problem we have with our 301 complaint and many questions have been raised in the Congress about the reasoning of Ambassador Yeutter in rejecting our 301 petition, was that he told us that under the law as it is currently worded, he would have to flip our case into the GATT.

He has no discretion to solve the problem here in Washington, either unilaterally or bilaterally with Japan. He went on to advise us that that would end up in a Pyrrhic victory, if you will. Japan would simply block the GATT dispute resolution process.

So our position is that Ambassador Yeutter really was forced to protect the lawbreaker here, that is Japan, by rejecting our 301 petition.

So we feel Congress should give Ambassador Yeutter the tools he needs to break down foreign barriers to U.S. agricultural exports. As we indicated above, we think this can be accomplished if the USTR has the discretion to refer agricultural-related trade issues to the GATT when appropriate.

This discretion will provide the USTR with the leverage needed to force countries such as Japan to deal with the United States rather than to delay and to block all effective remedial action.

We believe that your delegation of authority to the President to improve GATT dispute resolution procedures in the Uruguay round would be crippled unless it is accompanied by our suggested amendment to section 303.

At present, agricultural dispute resolution in the GATT is a joke. As recent agricultural cases demonstrate, disputes in the GATT take too long to address and are overly politicized by member coun-

tries. Even when decisions are finally reached, they may be ignored by the affected parties.

Three quick examples of what a problem that is.

One you are familiar with, sir, in the citrus area, that case started in 1976 and remains unresolved 11 years later.

The Millers' National Federation involving wheat export subsidies to the Common Market also remains unresolved 12 years later, and the final blow was the raisin industry actually winning a GATT dispute resolution panel and having it reversed by the EC after they won the panel because the EC didn't like the way it came out.

So we don't want the rice industry and other agricultural groups to fall into the same black hole at the GATT that has already enveloped the citrus, wheat and raisin industries.

We urge you to strengthen the hand of the USTR in dealing with illegal foreign trade barriers confronting U.S. agricultural exporters, while also strengthening the GATT dispute resolution process.

The administration in its proposal released yesterday addresses our concern, but it does not go far enough. Their answer to the problem we are talking about of the lengthy nature of the 301 process is to have a 2-year time deadline on 301 cases.

We feel that this 2 years is too long for us. In 2 years, a lot of our companies could be bankrupt if we couldn't get into foreign markets.

Two out of every three areas in U.S. rice production goes for export, so we need those foreign markets. So we would urge you to amend 301 to give the Trade Representative here the discretion to solve our problems in Washington without having to refer them into the GATT.

We would urge you to work with the administration, which we have been doing in trying to get appropriate language.

We are sure that the Government of Japan is watching this trade legislation process as it gauges whether or not to let U.S. rice enter its country.

We hope you and your colleagues on the subcommittee will send a strong signal to Japan and other import-limiting countries by giving favorable consideration to the Rice Equity and Export Expansion Act during markup.

We thank you for the opportunity to testify. We would be glad to answer any questions you might have.

[The statement of Mr. Gabbert follows:]

STATEMENT
OF
MR. J. STEPHEN GABBERT
EXECUTIVE VICE PRESIDENT
THE RICE MILLERS' ASSOCIATION

Mr. Chairman and Members of the Subcommittee,

My name is Stephen Gabbert. I am Executive Vice President of The Rice Millers' Association (RMA), national trade association of the United States rice milling industry. I am accompanied by our counsel, Bart S. Fisher, Esq., of the Washington law firm of Patton, Boggs & Blow. RMA members consist of farmer-owned cooperatives and independently-owned rice milling companies located in Arkansas, California, Florida, Louisiana, Mississippi, and Texas. Farmers who own our cooperative members produce approximately 65 percent of the rice in the United States. Our members account for virtually all of the rice milled in the United States. In addition, there are 25 associate members of RMA, including major U.S. exporters of rice. Together, RMA members and associate members account for virtually all U.S. rice exports.

Like Members of this Subcommittee, we have a vital interest in the formulation of our trade policy, particularly as it affects agricultural exports. We appreciate your invitation to share our thoughts as you consider revisions to section 301 of the Trade Act of 1974 and continue your efforts to develop trade legislation responsive to the needs of U.S. exporters. We have probably had more experience than any other agriculture group in using section 301 to combat unfair foreign trade practices. In two instances we accomplished our objectives, but in our most recent effort we were stymied because the Act as written would have required our case to be referred to the GATT for resolution.

Mr. Chairman, before discussing our specific concerns about section 301 and our proposed amendment to it, we want to give you an idea about how important rice exports are to the U.S. rice industry. International rice production and trade in rice is highly politicized. More than 50% of international trade is accounted for by government agencies. This, in part, explains why rice is often described as the "diplomatic crop."

The United States must export about 60% of its rice production into a highly protected environment. Many countries restrict importation of rice. Nearly prohibitive tariff and nontariff import barriers have created serious impediments to international trade in rice. U.S. rice exports have declined precipitously since 1981, when they accounted for 23 percent of world rice exports. In fact, between 1981 and 1985, rice exports fell from a high of 3.0 million metric tons to 1.9 million metric tons. Import barriers by such countries as Japan, Korea, Nigeria, and the European Community contributed to the decline of U.S. global market share and stagnation in growth of the international market. The high dollar and the U.S. price support system also played a role in the decline in exports as our rice became less price competitive.

Since implementation of the rice marketing loan program mandated by the Food Security Act of 1985, our export picture has dramatically improved. U.S. rice export sales for the 1986/87 marketing year are running about 70 percent ahead of the same period last year. As a result of the rice marketing loan provisions of the Act, U.S. rice is now price competitive with rice from other countries. In addition to making U.S. rice competitive in the international marketplace and expanding domestic demand, the rice marketing loan program has stimulated local farm economies, moved the rice crop into private commercial channels instead of into government stockpiles through loan forfeitures, and provided the rice industry with a solid basis for an orderly transition from government reliance to market dependence. To the Administration's credit, the rice marketing loan program has been administered and managed reasonably well.

While the rice marketing loan program will facilitate recapturing lost markets and penetrating new ones, it cannot

surmount illegal import barriers. Without access to foreign markets, price, quality, and competitiveness are irrelevant.

Among the most blatantly discriminatory and illegal trade barriers that the U.S. rice industry faces today are Japanese rice import restrictions. This market could be worth up to \$1.7 billion to the U.S. rice industry, but is presently closed. Since 1961, Japan has increasingly protected its pampered rice farmers through what has become a virtual ban on rice imports. While U.S. farmers have become more efficient and begun the transition from government to market dependence, Japanese rice farmers benefit from complete import protection and a guaranteed price for rice ten times the world price that has allowed them to prosper at the expense of the rest of the country. The Japanese economy, supposedly the paragon of efficiency and productivity, is being held hostage by its highly protected and inefficient agricultural sector.

Japan's "closed door" policy has been particularly burdensome to California rice growers, who produce the type and quality of rice grown and consumed in Japan. Japanese consumers have become increasingly interested in purchasing United States rice, not only because of its high quality and flavor, but also because of its low price. Despite this, Japan has steadfastly pursued its protectionist policy, leaving Japanese consumers and U.S. rice farmers to pay the price. The bloated Japanese price for rice has removed up to \$25 billion in purchasing power from the Japanese economy, a figure equal to almost half the U.S. trade deficit with Japan in 1986.

In an effort to open the restricted Japanese market, we filed a section 301 petition with the U.S. Trade Representative on September 10, 1986. As Members of the Subcommittee know, section 301 of the Trade Act of 1974 is perhaps the most powerful of the statutory mechanisms available to the President--when used--to open up closed markets.

Notwithstanding the unassailable fact that Japan continues to violate its international obligations by effectively precluding imports of rice, the Administration nonetheless chose not to exercise the authority delegated by Congress to pursue this matter on a bilateral basis with the Japanese or to undertake unilateral action against Japan. It did this even though it conceded that our section 301 petition could not have had a firmer legal basis.

Mr. Chairman, we do not believe that our export potential will be realized unless Congress provides further tools and guidance to the Administration. We support legislation that will encourage other nations to open their markets to U.S. rice exports. On February 5, 1987, Senator Pryor introduced S. 500, the "Rice Equity and Export Expansion Act of 1987." We expect comparable legislation to be introduced in the House within the next few days. We believe this trade legislation could easily serve as a model for other agricultural commodities.

The bill is modelled on the telecommunications bill originally introduced by Representative Matsui, reported favorably by the full Committee with minor amendments, and agreed to by the House last year. The bill provides that within 6 months after date of enactment, the U.S. Trade Representative (USTR) is required to identify those foreign acts, policies, and practices of no less than 15 countries which are the largest potential rice markets that deny fully competitive market opportunities to the U.S. rice industry. Then the USTR must establish specific negotiating objectives for each country identified, drawing from a list of primary and secondary negotiating objectives set forth in the bill.

Immediately thereafter, the President is required to begin negotiations with countries identified by the USTR as denying fully competitive market opportunities. The purpose of these negotiations is to enter into bilateral or multilateral agreements which achieve the primary and secondary objectives established by the USTR for each country. Such agreements must be reached within 12 months of the date of enactment. However, if substantial progress is being made, the President may request up to two 6-month extensions of negotiating authority, subject to "fast-track" Congressional review (an up-or-down vote within 45 days, with no amendments permitted).

If the President is unable to enter into a satisfactory agreement with a particular country within the authorized time period, the President is required to take whatever actions authorized in the bill are necessary and appropriate to achieve his primary negotiating objectives. The President, at his discretion, also may take whatever authorized actions are necessary to achieve the secondary objectives not covered by an agreement.

The USTR must conduct annual reviews of agreements reached by the President to determine whether any act, policy, or practice of the country concerned is not in compliance with terms of the agreement or otherwise denies fully competitive market opportunities. If he finds a violation or that these opportunities are being denied, he must take whatever actions are authorized to fully offset the foreign acts, policies, and practices and to restore the balance of concessions between the United States and the foreign country.

The legislation also establishes two broad negotiating objectives for the Uruguay Round of Multilateral Trade Negotiations. The first objective is identical to section 152(b) (8) of the House omnibus trade bill. The second objective codifies the intent of title I of the bill, namely, to encourage elimination of tariff and nontariff barriers to international trade in rice.

Finally, the bill amends section 303 of the Trade Act of 1974 to provide the USTR with discretion to refer section 301 complaints to the GATT for resolution in cases involving agricultural products. As modified, section 303 would not require anything new of the USTR. Rather, it would provide him with the discretion to pursue agricultural cases, bilaterally or unilaterally, without being required to refer them to the multilateral dispute resolution process of the GATT for its interminable review. Because the GATT appears incapable of resolving disputes of this nature in a timely fashion, we think the law ought not require the USTR to burden U.S. exporters with this additional delay in reducing barriers to trade.

Mr. Chairman, many questions have been raised in the Congress about the reasoning of Ambassador Yeutter in rejecting our section 301 petition. The problem lies not in section 301 of the Act, but in section 303, which reads in relevant part:

If the [section 301] case involves a trade agreement and a mutually acceptable resolution is not reached during the consultation period, if any, specified in the trade agreement, the Special Representative shall promptly request proceedings on the matter under the formal dispute settlement procedures provided under such agreement.

19 U.S.C. § 2413(a) (emphasis added).

Thus, with regard to any agricultural issue involving the articles of the GATT, the USTR is currently obligated to turn the issue over to the GATT dispute-resolution process. In formally

rejecting our petition, Ambassador Yeutter stated that, if he were to accept our section 301 complaint, he would have to turn the whole matter over to a GATT panel. In his view, "[t]his is unlikely to precipitate market-opening changes in the Japanese rice program, which is the petitioners' objective." In other words, if pursued, the GATT route on the Japan rice access issue would have yielded a Pyrrhic victory. Unfortunately, under current law Ambassador Yeutter was forced to protect the lawbreaker by rejecting our section 301 petition.

Congress should give Ambassador Yeutter the tools he needs to break down foreign barriers to U.S. agricultural exports. As we indicated above, we think this can be accomplished if the USTR has the discretion to refer agricultural related trade issues to the GATT when appropriate. This discretion will provide the USTR with the leverage needed to force countries such as Japan to deal with the United States rather than to delay and to block all effective remedial action.

We believe that your delegation of authority to the President to improve GATT dispute resolution procedures in the Uruguay Round would be crippled unless it is accompanied by our suggested amendment to section 303. At present, agricultural dispute resolution in the GATT is a joke. As recent agricultural cases demonstrate, disputes in the GATT take too long to address and are overly politicized by member countries. Even when decisions are finally reached, they may be ignored by the affected parties.

Three examples in the agricultural products area should suffice to make the point that "dispute resolution" in the GATT is an oxymoron. In 1976, at the request of the Florida Citrus Commission, the United States challenged the European Community's preferential import duties on citrus fruits from certain Mediterranean countries. This matter remains unresolved, 11 years later. Similarly, the Millers' National Federation case involving alleged violations of the Community's wheat export subsidies, which was commenced in 1975, also remains unresolved, 12 years later. Finally, in 1986 a GATT panel ruling against the Community for its alleged violation of the GATT through its grouping of production subsidies on canned peaches, canned pears, and raisins was reversed. In this case, which has been going on since 1981, the Community managed to have the GATT reverse its decision because it did not like the panel's determination.

We do not wish to have the rice industry and other agricultural groups fall into the same "black hole" at the GATT that has already enveloped the citrus, wheat, and raisin industries. We urge you to strengthen the hand of the USTR in dealing with illegal foreign trade barriers confronting U.S. agricultural exporters, while also strengthening the GATT dispute resolution process.

Mr. Chairman, we are sure the Government of Japan will be closely watching the trade legislation process as it gauges whether or not to let U.S. rice enter its country. We hope you and your colleagues on the Subcommittee will send a strong signal to Japan and other import limiting countries by giving favorable consideration to the Rice Equity and Export Expansion Act of 1987 during markup. We appreciate your past efforts to assist U.S. exporters and hope you can continue to help them reach their full export potential.

Thank you again for this opportunity to testify.

Chairman GIBBONS. We will go to the American Natural Soda Ash Corp. next.

STATEMENT OF JOHN M. ANDREWS, PRESIDENT, AMERICAN NATURAL SODA ASH CORP.

Mr. ANDREWS. I am John Andrews, president, American Natural Soda Ash Corp. I must say at the outset that I regret we have to be here at all today as we are dependent upon exports.

We are also dependent upon our ability to serve free and fair market access to all foreign markets. Therefore, we have always embraced the principle of free trade and open markets and we have been reluctant to solicit Government help in what we think are commercial undertakings.

However we are here today to say that there is no such thing as free and fair trade for our product in Japan. There is a lot of talk today about competitive advantage in Congress.

Our industry is one in which the United States has a tremendous competitive advantage. Our product uses substantially less energy and less manpower to produce each ton of soda ash than that required by Japanese production.

We have also made the commitment to expanding our market presence in Japan. Today we have over \$5 million in inventory in Japan. That is more inventory than the Japanese firms keep themselves.

Ambassador Mansfield recently wrote to Prime Minister Nakasone and said, "I wish more American exporters were making similar efforts actively to adapt to the needs of Japanese customers." We consider that quite a compliment. Since we entered the market in Japan, prices have been reduced substantially.

In fact, in the last 2 years, we have reduced the price in Japan about 35 percent. In spite of that, our market size has not increased.

Interesting enough, this product was one in which the Japan Fair Trade Commission found in 1983 there was a cartel which existed which controlled the price of soda ash in Japan and allocated market shares and import shares among themselves and shared the profits according to an agreed ratio. The JFTL directed these companies to cease and desist these activities.

But in their finding the JFTC ordered no fines or other sanctions. Not surprisingly our business immediately went up, however, it only went up to a new plateau. In 1986 we instituted substantial price discounts in an effort to get further volume.

These cost us over \$3 million and we had no increase in market share. The U.S. Government has raised this issue many times.

In fact, Mr. Chairman, we have to thank you, as you have raised it yourself with Japanese officials in 1985. Twice Senator Wallop, the Senator from Wyoming, has made specific trips to Japan and to solicit further fair market access for this product.

Ambassador Yeutter, himself, has brought it up on numerous occasions, and in numerous decisions with members of the Diet, Members of the Cabinet, and the Prime Minister Nakasone himself. As Senator Wallop once said, "If the Japanese won't buy our soda ash; what will they buy?"

One of the things that we are here to talk to you about today is in support of H.R. 3, we are extremely pleased to see that toleration of cartels as is specifically included as actionable under section 301 in the new legislation.

In recent years, Congress considered a wide variety of legislative proposals designed to assure U.S. exporters access to foreign markets. We are here to say the only way we are going to gain access is if we measure the results of U.S. exports to countries.

At present, reflecting the massive U.S. trade deficit, a public policy debate is underway concerning the international competitiveness of U.S. industry. Many argue that the only solution to that lies principally in the exchange rate, and weakening the dollar will ultimately eliminate the trade imbalance.

Gentlemen, that is not the case. We have many products that are very competitive and can compete in any world market.

We sell our product in over 30 countries around the world, but we can not sell our product in Japan. The case of soda ash shows that there is a lot more to the problem than just competitiveness. We face limits on what we can accomplish internationally. We face limits to what we can do ourselves. We need your support and we appreciate your time today.

[The statement of Mr. Andrews follows:]

Testimony of

JOHN ANDREWS

on behalf of the

AMERICAN NATURAL SODA ASH CORPORATION (ANSAC)

Mr. Chairman, I am John Andrews, President of the American Natural Soda Ash Corporation ("ANSAC"). ANSAC is a Webb-Pomerene Corporation representing the six U.S. producers of soda ash, a commodity used in the manufacture of glass, detergents, and other industrial processes. My purpose in testifying today is to report to you on the market access problems which ANSAC is encountering in Japan.

I must say at the outset that I regret that we are in a position where we find it necessary to raise this issue with you at all. ANSAC's only business is exports, and we are therefore completely dependent upon our ability to secure and maintain access to foreign markets. Because the U.S. enjoys a natural resource advantage in soda ash, we can produce higher quality soda ash, at a lower cost, than any other country in the world, and in any open competitive situation, our industry is likely to prevail. Therefore, we have always embraced the principle of free trade and open markets, and are reluctant to seek government involvement in commercial matters. Unfortunately, we do not confront an open market situation in Japan, and we appear to have exhausted the commercial possibilities for achieving real access to that market. We have concluded that without the support of our government, such access is unattainable.

The U.S. Competitive Edge

Analyses of the causes of the bilateral trade imbalance with Japan are complicated by the fact that Japanese firms have achieved a competitive edge over some U.S. industries, and U.S. firms have often failed to make a major commitment to serving the Japanese market. The case of soda ash is important because it is one industry in which the United States holds a commanding competitive edge over Japan, and where the U.S. industry has mounted a major and sustained effort to penetrate the Japanese market. The fact that we have encountered major barriers, and that the Japanese government has been unwilling or unable to rectify the problem, suggests that more fundamental problems underlie the trade imbalance than factors such as exchange rates or the efforts of U.S. companies.

Our competitive edge is substantial. The Japanese industry, lacking natural soda ash deposits comparable to our own, must manufacture the product through a synthetic process which is heavily dependent on imported raw materials and energy. The U.S. soda ash industry uses substantially less manpower and less energy to produce each ton of soda ash than the Japanese industry. Our cost advantage is so significant that even when the dollar was at its strongest relative to the yen, we could incur the costs associated with exporting the product to Japan (shipping, insurance, warehousing, etc.) and still remain price competitive in Japan. As the dollar has declined in value relative to the yen, our cost advantage has further widened.

We have made a major commitment to expanding our market presence in Japan. Since our large-scale entry into Japan in the early 1980s, we have repeatedly undercut the domestic price (which was far higher than the world price) and Japanese soda ash prices have declined by 35 percent. We continue to price below our Japanese competitors, and initiated major price reductions in 1986. In order to demonstrate our commitment to our Japanese customers, we have warehoused approximately two months' worth of soda ash inventory at seven locations in Japan, which is more inventory than the Japanese firms themselves maintain. We have not had a single complaint about the quality of our product from a Japanese customer in years. As Ambassador Mansfield recently said to Prime Minister Nakasone, in

summarizing our activities in Japan, "I wish that more American exporters were making similar efforts actively to adapt to the needs of Japanese customers."

Japanese Market Barriers

Japan has a long history of resistance to import penetration in this industrial sector. In 1983, the Japan Fair Trade Commission (JFTC) found that an illegal cartel of Japanese soda ash producers, organized in 1973, was restricting sales of U.S. soda ash in Japan. The JFTC found that these firms regulated the price of soda ash in Japan, allocated market shares and import shares among themselves, and shared the profits and losses among themselves according to an agreed ratio. Directly and through their affiliated trading companies, the Japanese producers exerted pressure on Japanese consumers not to procure imported soda ash through "independent" channels, that is, from a source other than the producers' group itself. The JFTC ordered the Japanese producers to cease this activity, although it imposed no fines or other sanctions. In the immediate aftermath of the JFTC decision, U.S. sales increased from an annual total of 50 thousand metric tons to approximately 210-220 thousand tons -- about 15-18 percent of the market.

After this, however, U.S. import volume leveled off, and has stagnated thereafter at 15-18 percent of the market. A number of Japanese customers reported renewed pressure from Japanese soda ash producers, and cited that pressure as a reason why they could not increase their purchases of U.S. soda ash, regardless of the price offered. In 1986 ANSAC instituted substantial price discounts, but sales volume did not increase -- the net effect of these discounts was a \$3 million loss in revenue on ANSAC's existing sales.

There are many indications that despite the 1983 decision by the JFTC, the Japanese producers continue to restrict U.S. import volume in Japan:

- * In 1986 a Japanese soda ash producer contacted a Japanese company which was purchasing a large quantity of U.S. soda ash. The producer demanded that this company cease its purchases of U.S. soda ash, or it would sever all commercial dealings with the firm.
- * A number of Japanese customers have reported that at the insistence of Japanese producers, they can purchase only a fixed volume of soda ash -- such as 20-30 percent -- from U.S. suppliers, and that this volume will not be increased regardless of the terms offered.
- * In 1986 a Japanese trading company affiliated with the producers' group contacted ANSAC and asked how much more U.S. soda ash it would need to buy in order to make U.S. 1986 volume equal that of 1985. ANSAC was told that "we want you to come out equal to 1985, but we don't want to give you growth."

These and other similar reports, coupled with the history of this market, have made it clear to us that we do not face an open market situation in Japan.

U.S. Market-Opening Efforts

The U.S. Government has raised the soda ash market access issue repeatedly with the Japanese government through a variety of formal and informal channels during the past two years, but with few tangible results to date. USTR has held a series of bilateral discussions with MITI on the issue and has pressed the Japanese government to take steps to resolve the problem. Senator Wallop, a longstanding free trade advocate whose home state of Wyoming contains the largest natural soda ash deposits, has made two visits to Japan solely to raise this issue with the Japanese government, and this month he met with Prime Minister Nakasone, several cabinet ministers and a number of Diet members on the issue. Many other Congressmen and Senators, including yourself, Mr. Chairman, have raised the soda ash issue with Japanese officials since 1985. To date, however, there has been no meaningful response from the Japanese side. Japanese officials, including representatives of the JFTC and MITI, have repeatedly taken the position that the market is completely open -- to the extent that U.S. sales have not increased, they say, this is due to American competitive shortcomings, not to any Japanese barriers to access.

This is simply unacceptable. During the past decade, Japanese companies have entered the U.S. market with a variety of competitive products, and they have made rapid, and sometimes explosive gains in market position. In some industries, Japanese products have virtually taken over the entire U.S. market. This has required a painful adjustment process for U.S. companies and workers, but it is supposedly what free trade is all about -- the assumption is that we will enjoy corresponding opportunities in foreign markets in industrial sectors where our own industries hold an edge. We are finding, however, that with respect to Japan, it doesn't work that way -- for my industry, at least, free trade has been a one way street. That fact should be a major concern for this country. As Senator Wallop has said, "if the Japanese won't buy our soda ash, what will they buy?"

U.S. Policy Responses

The experience of the soda ash industry indicates that commercial initiatives and economic factors such as changes in the exchange rate will not, by themselves, rectify the U.S.-Japan trade imbalance. The problem of Japanese structural barriers needs to be addressed, and this can only be done effectively through a policy response by the U.S. government.

U.S. negotiators have pressed the Japanese government to take the steps necessary to ensure real access for U.S. soda ash in Japan. Congressional support for this effort has been strong, and must continue if a positive Japanese response is to be obtained. The fact that such a response has not been achieved to date should be the occasion for a redoubled effort by the Administration and Congress.

Congress may also consider legislative options. The barriers which we confront in Japan is, in effect, the restrictive practices of a group of private companies that are blocking the expansion of U.S. export sales. The Japanese government is tolerating this conduct, but we are

unaware of any current direct government role in encouraging or directing it. Section 301 of the Trade Act of 1974, the principal U.S. trade remedy applicable to market barriers abroad, is directed against the actions of foreign governments. While we believe that toleration of cartels is in fact an "unreasonable" practice currently actionable under Section 301, we support the current language in H.R. 3 which would amend Section 301 in order to make this explicit.

In addition, we note that in recent years Congress has considered a variety of legislative proposals designed to ensure U.S. exporters access to foreign markets which is reciprocal to that which foreign firms enjoy in our own market. Such proposals raise the prospect that nations such as Japan which have enjoyed free access to our own market but which maintain an array of barriers to our exports will confront restrictions on their exports to the U.S. if they continued to refuse to open their markets. Such action by the U.S. would disrupt many commercial relationships and adversely affect U.S. as well as Japanese business interests. I hope that this problem, and others like it, can be resolved without resort to such measures. However, our disappointing results in Japan, and the apparent intransigence of the Japanese government on this issue, ultimately raise the question of what other responses, if any, are available.

Conclusion

At present, reflecting the massive U.S. trade deficit, a public policy debate is under way concerning the international competitiveness of U.S. industry. Some argue that the solution to the trade problem lies principally in the exchange rate, and that the weakening of the dollar will ultimately eliminate the trade imbalance. Others feel that the answer to the problem can be found if U.S. companies become more competitive -- cutting costs and increasing their overseas sales efforts. The case of soda ash, however, shows that there is more to the problem than this -- we already have the most competitive soda ash industry in the world, and we enjoyed a cost advantage even when the dollar was strong. However, these factors have proven virtually irrelevant to our ability to increase our sales in Japan.

In effect, we face limits on what we, as a private industry, can accomplish internationally no matter how competitive we may be. A strong, effective policy response by the U.S. Government is essential if the trade distortions in this sector are ever to be rectified. I hope that your Subcommittee remains mindful of our case as you consider trade legislation this year.

Chairman GIBBONS. Where do the Japanese get their soda ash from?

Mr. ANDREWS. They produce it synthetically from a way we used to produce it in the United States. Thirteen years ago there were 14 synthetic plants in the United States. Today there are none.

We have closed them all because they are inefficient and they are environmentally unsound. We have got the cleanest, highest quality product in the world, with the lowest cost, but we can't seem to make in-roads into the marketplace.

Chairman GIBBONS. You just mine it?

Mr. ANDREWS. We mine it in Wyoming and refine it, and also in California. We have enough to supply the entire world for over a thousand years. It is a great world resource but we are not able to utilize it in the way we should.

Chairman GIBBONS. Let me ask you how old are those Japanese plants; do you know?

Mr. ANDREWS. Well, the plants were built shortly after the war, most of them. They are fairly well dated. I would say they are 25 to 40 years old, Mr. Chairman.

Chairman GIBBONS. So they are probably worn out, too.

Mr. ANDREWS. Well, I can't speak to their condition but certainly they should depreciate the entire value of the plants by now, I would think.

We have been amazed that in spite of all the great support we have had from yourself and many other congressional leaders and members of the administration that we seem to make no progress.

Chairman GIBBONS. What do the Japanese fertilize—their people or the Japanese farmer pay for their soda ash versus what you can sell soda ash for?

Mr. ANDREWS. Well, the price in Japan is the highest price in the world.

Chairman GIBBONS. I would imagine so.

Mr. ANDREWS. Since we have entered the market the price has come down 35 percent. In fact, in just the last 2 years it is come down over 30 percent but our market share remains the same no matter how we price the product.

We have many customers show have said to us we can only buy a certain percentage from you. We have many customers that say, don't lower your price anymore because we can't buy any more from you, and it becomes an embarrassment to them. Those are the kind of barriers that commercially we can not solve, and we need the help of Congress.

Chairman GIBBONS. Do you know how many people are in the Japanese soda ash industry, synthetic industry?

Mr. ANDREWS. That is one of the reasons we can't figure out the solution to the problem. The number is relatively small.

The number of people that are involved in the glass industry, which it supplies the raw materials to, is very large. So it is the kind of industry which many have said over the last five to 10 years they want to get out of. It is energy intensive.

It does not employ a lot of people and they import all the raw materials to make the product. I think Senator Wallop said it very well:

If they are not going to buy U.S. soda ash, Mr. Chairman, I don't know what they are going to buy.

Chairman GIBBONS. Let me ask you what is the difference as far as the user is concerned between synthetic soda ash and natural soda ash?

Mr. ANDREWS. If anything there is a quality advantage to our product. There is certainly no disadvantage to our product.

Chairman GIBBONS. Sounds very Japanese. Let me ask you about rice. I hate to suppress my ignorance about rice. I don't know a whole lot about rice, except I realize production of rice has just exploded in the world, mainly because of the green revolution and change in farming practices around the world. In this country do we have a rice program like we have a wheat program, and a corn program, and a peanut program, and all that?

Mr. GABBERT. Yes, we do, Mr. Chairman.

Chairman GIBBONS. How does it work? Can you explain it to me?

Mr. GABBERT. In the 1985 Farm Act, which Congress passed about a year ago, was established a new concept in agricultural programs for cotton and rice. It is called a marketing loan program.

The other commodities chose not to adopt it because it was basically untried and untested. The objective was to lower the price of rice or cotton and to make them competitive in world markets. This is done through the price support system. The Government provides a loan at a stated level to a farmer. When he redeems that loan, pays the Government back, he would repay it at the world price level, whatever that may be.

That could be below the level at which the loan was made. Through this mechanism that rice or that cotton becomes competitive in the world market.

Chairman GIBBONS. So the subsidy is the difference whatever got the loan for and whatever the world price is; is that it?

Mr. GABBERT. As established by the Department of Agriculture. The Department of Agriculture measures the world price and establishes it on a weekly basis.

Chairman GIBBONS. How much does the program cost the American taxpayer?

Mr. GABBERT. The program is costing somewhere in the neighborhood of around \$750 to \$800 million for the current fiscal year.

Mr. Chairman, a study was released on Wednesday of this week by the consulting firm of Able, Daft & Early. They did a rather extensive review of the economic benefits of the rice marketing loan program. What they essentially have come up with is that the program has been very successful in a number of areas. It has spurred exports, as I mentioned in my opening remarks. It has reduced Government stocks, which the Government is holding at an expense.

It has also revitalized local economies in rice producing areas. This extends not only to farmers themselves, but to all parts of the rural economies. The rice marketing loan program is essentially a rural development bill in that it has made farmers bankable.

I am sure you are aware of the situation in agriculture right now. So by the time you consider the increases in State tax reve-

nues, the impact on local economies, you have a significant offset to Federal expenditures.

The multipliers are probably somewhere in the neighborhood of around 4 to 1. So for every dollar you have spent in terms of Federal outlays you are getting about \$4 back in terms of the impact on local and State economies.

The new rice marketing loan program has also allowed us to recapture and at least maintain market share. The program is essentially viewed as a transition one, Mr. Chairman, because it has declining levels of income support mechanisms.

We recognize that at some point in the next 3 to 4 years that there is going to be less Government assistance available. So that gives us some time to adjust because we are basically subject, like all industries, to macroeconomic conditions under which we have no control.

So at least it gives us time to try to work through some efforts on our part, such as making us more efficient, increasing field deals, reducing the amount of land, et cetera.

Chairman GIBBONS. I don't want to discourage you. The Speaker said yesterday that he was going to make every effort, and certainly I will make every effort to try to keep our trade bill as generic as possible.

You are going to come back and say well, you have taken care of telecommunications and I have to say, yes, we have done that. But we had a reason for going into telecommunications. We unilaterally disarmed in the telecommunications area when we deregulated and we got nothing, no protection and no market access for it.

What we are trying to do in the telecommunications area is make up what we should have done when we deregulated. We should have asked for some concessions from our trading partners at that time. So, while you may have a good concept about bargaining in this area, I would not encourage you to try to attach your legislation to this trade bill because we, certainly at this level, intend to resist adding more things to the trade bill.

If it becomes product-by-product, we are going to have a wholly unmanageable mess on our hands. We just can't contain that.

We would have to put every product from citrus to wheat to everything in it. I think we would end up with a trade bill that we couldn't handle.

We will give you an opportunity at a later date this session to bring that up and I will work very closely with Mr. Fazio and Mr. Flippo and some of the others who want to—it wasn't Mr. Flippo. It was Mr. Anthony, wasn't it?

Mr. GABBERT. Mr. Matsui.

Chairman GIBBONS. I will work very closely with them on it but I sort of wish we hadn't done what we had done in telecommunications, but I don't want to pull that out of this bill.

We did it for telecommunications because I think we treated that industry very unfairly when we deregulated and didn't require some quid pro quo in that industry. But I enjoy working with you and I will continue working with you to open up these markets.

Mr. GABBERT. I would like to ask Mr. Fisher to make a few comments.

Mr. FISHER. We appreciate your sentiments. Just two points. First of all, rice is facing more foreign trade barriers than the other U.S. agricultural exports and commodities and as such, it is the world's most politicized crop.

Chairman GIBBONS. I realize that.

Mr. FISHER. It is a more compelling case, I think, We appreciate your reluctance to get into a nongeneric approach. Title 3 of the bill is general in its application to agricultural products in the 301 context though. That is not just a rice bill. That is for all U.S. agricultural exporters.

The administration, itself, has recognized there are particular problems with agriculture in the GATT dispute resolution process. That doesn't work. We have to fix that and if we fix that, that will help the rice industry and many other agriculture industries.

So title 3 of our bill is generic in the broadest sense.

Chairman GIBBONS. We will take a look at that then. Perhaps it will lead us out into a better way of negotiating these agricultural matters under GATT. We want agricultural negotiations to be an integral part of GATT of the multilateral trade negotiations we are heading for.

We will take a look at that and be glad to have your expertise. I realize there is nothing more sensitive than self-sufficiency in agriculture as far as nations are concerned.

I can understand to some extent, why the Japanese are so protectionist as far as rice is concerned. It is the crop on which they must survive in case we pull another one of those soybean tricks on them or they find themselves somewhat isolated.

I am also worried about all the discussions we have here in this committee about the Japanese that we may be driving them to a greater feeling of isolationism by the continual pounding. I frankly want to find a better way of dealing with the Japanese problem than we have had in the past.

As I say, trade takes about 80 percent of my legislative time and the Japanese problem takes about 80 percent of that 80 percent. So it is a serious matter with me. I want the record to show as God is my witness, I am not anti-Japanese.

I wish I could find a better way of dealing with what we call the Japanese problem. We are not dealing with it effectively and I think we do run a serious risk of appearing to be anti-Japanese. I want to disclaim that here, now and forever.

They are wonderful people, but their economic system is causing us more problems than we need or they need. I sometimes wonder why the Japanese are so intent upon supplying all the goods that we need at very favorable prices and then lending us all the money we need to buy their goods and then running the risk of devaluation. Looks like they have walked into a trap of enslavement to me. I can't really figure it out.

I have tried to talk with the Japanese. They want to do all of our work and they want to lend us as much money as we need to buy their goods and yet they may get paid back with something that is absolutely worthless. It is a bad situation for them.

I hope that they recognize that. They have got to become a nation of greater consumers or they are going to shortchange themselves so much that I hate to think of what will happen when

their personal reckoning comes about. They will look like they have not been proper providers for their own future.

Mr. FISHER. Mr. Chairman, your comments have particular relevance for rice in that the price for the rice in Japan is 10 times the world price.

Chairman GIBBONS. I know it.

Mr. FISHER. They are taking \$25 billion, not million, billion in purchasing power, extra for that rice policy which is have the United States-Japan trade deficit, if you look at it that way. They have put a self-inflicted wound on themselves in that respect.

Chairman GIBBONS. I can understand. I have never been hungry, maybe 24 hours, but I have never been hungry, as you can tell from my waistline, for much of my life and I can remember the Japanese have been hungry and that makes an indelible impression upon where you put your priorities.

We need a system in the agricultural area where we not only are good purchasers, but we are good suppliers. And I think—of course it is going to take a while of a long time for us to convince the Japanese that we will be consistent suppliers.

After all, we played the ultimate dirty trick on them with the soybean episode back in I think, the early 1970's. I was their when that little dirty trick was pulled on them and I can understand their skepticism after that. But there is no reason why in the small fields and the limited agricultural production facilities they have in Japan that they ought to be paying these horrible prices for food. I worry about what the ultimate impact of that is upon the Japanese society. Tough problem.

Good testimony.

This committee will now adjourn and we will meet again on February 25, at 9:30 in this room to continue our hearings on H.R. 3.

Thank you very much.

[Whereupon, at 1:15 p.m., the hearing was adjourned, to reconvene at 9:30 a.m., Thursday, February 26, 1987.]